

SUMMARY STATEMENT OF PRINCIPLES

SECTION 1100

Sources: NCGAS 1, GASBS 14, GASBS 34, GASBS 42, GASBS 51,
GASBS 54, GASBS 72, GASBS 84, GASBS XX

Accounting and Reporting Capabilities

(See Section 1200, “Generally Accepted Accounting Principles and Legal Compliance.”)

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

Fund Accounting Systems

(See Section 1300, “Fund Accounting.”)

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

Fund Types

(See Section 1300.)

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

a. Governmental funds (emphasizing major funds)

- (1) The general fund
- (2) Special ~~revenue~~ resources funds
- (3) Capital projects funds
- (4) Debt service funds
- (5) Permanent funds

b. Proprietary funds

- (6) Enterprise funds (emphasizing major funds)
- (7) Internal service funds

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- c. Fiduciary funds (including fiduciary component units)
 - (8) Pension (and other employee benefit) trust funds
 - (9) Investment trust funds
 - (10) Private-purpose trust funds
 - (11) Custodial funds.

Number of Funds

(See Section 1300.)

.104 Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

Reporting Capital Assets

(See Section 1400, "Reporting Capital Assets.")

.105 A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds (including fiduciary component units) should be reported only in the statement of fiduciary net position. All other capital assets of the governmental unit are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position.

Valuation of Capital Assets

(See Section 1400.)

.106 Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Donated capital assets should be reported at their acquisition value¹ plus ancillary charges, if any.

Depreciation² and Impairment of Capital Assets

(See Section 1400.)

.107 Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives, or are

¹Acquisition 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. [GASBS 72, ¶79 and ¶86]

²As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

infrastructure assets reported using the modified approach as set forth in Section 1400. Inexhaustible capital assets such as land and land improvements should not be depreciated. Unless otherwise required, depreciation should be reported in the government-wide statement of activities; the proprietary fund statement of revenues, expenses, and changes in fund net position; and the statement of changes in fiduciary net position. Capital assets should be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined as set forth in Section 1400.

Reporting Long-Term Liabilities

(See Section 1500, "Reporting Liabilities.")

.108 A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds (including fiduciary component units) should be reported in the statement of fiduciary net position. Long-term debt issued for short-term purposes should be reported as liabilities in governmental funds and in the governmental activities column in the government-wide statement of net position. All other unmatured general long-term liabilities of the governmental unit should not be reported as liabilities in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position.

Measurement Focus and Basis of Accounting in the Basic Financial Statements

(See Section 1600, "Basis of Accounting.")

Government-Wide Financial Statements

.109 The government-wide statement of net position and the statement of activities should be ~~prepared using~~ presented applying the economic resources measurement focus and ~~the~~ accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange transactions other than those associated with irrevocable split-interest agreements should be recognized in accordance with Section N50, "Nonexchange Transactions."

Fund Financial Statements

.110 In fund financial statements, the ~~modified accrual or short-term financial resources measurement focus and accrual basis of accounting or economic resources measurement focus and~~ modified accrual or short-term financial resources measurement focus and accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

- a. Financial statements for governmental funds should be presented ~~using~~ applying the ~~current~~ short-term financial resources measurement focus and ~~the modified~~ accrual basis of accounting.

~~Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term liabilities, which should be recognized when due.~~

- b. Proprietary fund statements of fund net position and revenues, expenses, and changes in fund net position should be presented ~~using~~applying the economic resources measurement focus and ~~the~~ accrual basis of accounting.
- c. Financial statements of fiduciary funds should be ~~reported using~~presented applying the economic resources measurement focus and ~~the~~ accrual basis of accounting. The recognition of certain liabilities in fiduciary funds is discussed in paragraph ~~138~~132 of Section 1600.
- d. Transfers should be reported in the accounting period in which the interfund receivable and payable arise.

Budgeting, Budgetary Control, and Budgetary Reporting

(See Section 1700, "The Budget and Budgetary Accounting," and Section 2400, "Budgetary Reporting.")

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- a. An annual budget(s) should be adopted by every governmental unit.
- b. The accounting system should provide the basis for appropriate budgetary control.
- c. Budgetary comparisons should be presented for the general fund and for each major special ~~revenue resources~~ fund that has a legally adopted annual budget. Governments are ~~encouraged~~required to present such budgetary comparison information in schedules as a part of RSI. However, a government with significant budgetary perspective differences that result in the government's not being able to present budgetary comparisons for the general fund and each major special ~~revenue resources~~ fund is required to present budgetary comparison schedules as RSI based on the fund, organization, or program structure that the government uses for its legally adopted budget.

Transfer, Revenue, Expenditure, and Expense Inflow of Resources and Outflow of Resources Account Classification

(See Section 1800, "Classification and Terminology.")

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- a. At a minimum, the statement of activities should present:
 - (1) Activities accounted for in governmental funds by function, as discussed in paragraph 133 of Section 1800, paragraph 133, to coincide with the level of detail required in the governmental fund statement of ~~revenues, expenditures, and changes in fund balances~~short-term financial resource flows
 - (2) Activities accounted for in enterprise funds by *different identifiable activities*.

- b. Governmental fund ~~revenues~~inflows of short-term financial resources should be classified by fund and source. ~~Expenditures~~Outflows of short-term financial resources should be classified by fund, function (or program), organization unit, activity, character, and principal classes of objects.
- c. Proprietary fund revenues should be reported by major sources, ~~and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.~~ Revenues and expenses should be distinguished as operating, noncapital subsidy, and other nonoperating.
- d. Proceeds of general long-term debt issues should be classified separately from ~~revenues and expenditures~~other noncurrent inflows of resources in the governmental fund financial statements.
- e. Contributions to term and permanent endowments, contributions to permanent fund principal, other capital contributions, ~~special and extraordinary~~unusual or infrequent items, and transfers between governmental and business-type activities should each be reported separately from, but in the same manner as, general revenues in the government-wide statement of activities. In the proprietary fund statement of revenues, expenses, and changes in fund net position, ~~these items~~contributions to term and permanent endowments and capital contributions should be reported ~~separately after as other~~ nonoperating revenues and expenses. In proprietary funds, transfers should be reported as noncapital subsidies or as other nonoperating revenues and expenses. In proprietary funds, unusual or infrequent items should be reported separately after other nonoperating revenues and expenses. Transfers should be classified separately from ~~revenues and expenditures~~other inflows of resources and other outflows of resources in the governmental fund statement of ~~revenues, expenditures, and changes in fund balances. Special and extraordinary~~short-term financial resource flows. Unusual or infrequent items should be reported separately after ~~“other financing sources and uses”~~net flows from noncurrent activities in the governmental fund statement ~~of revenues, expenditures, and changes in fund balances~~short-term financial resource flows.

Common Terminology and Classification

(See Sections 1700 and 1800.)

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

Annual Financial Reports

(See Section 2200, “Comprehensive Annual Financial Report,” and Sections 2100–2800.)

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- a. A comprehensive annual financial report should be prepared and published, covering all funds and activities of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity—including introductory section, management’s discussion and analysis (MD&A), basic financial statements,

required supplementary information other than MD&A, appropriate combining and individual fund statements, schedules, narrative explanations, and statistical section. The reporting entity is the primary government (including its blended component units) and all discretely presented component units presented in accordance with Section 2100, "Defining the Financial Reporting Entity."

- b. The minimum requirements for MD&A, basic financial statements, and required supplementary information other than MD&A are:

- (1) Management's discussion and analysis.
 - (2) Basic financial statements. The basic financial statements should include:
 - (a) Government-wide financial statements.
 - (b) Fund financial statements.
 - (c) Notes to the financial statements.
 - (3) Required supplementary information other than MD&A.
- c. As discussed in Section 2100, the financial reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit. The reporting entity's government-wide financial statements should display information about the reporting government as a whole, distinguishing between the total primary government and its discretely presented component units as well as between the primary government's governmental and business-type activities. The reporting entity's fund financial statements should present the primary government's (including its blended component units, which are, in substance, part of the primary government) major funds individually and nonmajor funds in the aggregate. Funds and component units that are fiduciary in nature should be reported only in the statements of fiduciary net position and changes in fiduciary net position.
- d. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions of Section 2100 should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government. When reported in the fiduciary fund financial statements of a primary government, a fiduciary component unit should include the combined information of its own component units that are fiduciary component units. That combined information should be aggregated with the primary government's fiduciary funds based on the classifications in paragraphs .128–.134 of Section 1300.

Interim Financial Reporting

(See Section 2900, "Interim Financial Reporting.")

.115 Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes.

Summary Statement of Principles

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[NCGAS 1, pp. 2–4, as amended by GASBS 6, ¶15, GASBS 14, ¶11, ¶19, ¶43, and ¶65, GASBS 34, ¶6, ¶15, and ¶69, GASBS 63, ¶8, and GASBS 63, ¶8XX, ¶12, ¶22, ¶23, ¶27, ¶30, and fn10; GASBS 14, ¶12 and ¶66, as amended by GASBS 61, ¶4; GASBS 34, ¶6, as amended by GASBS 84, ¶5; GASBS 34, ¶14, ¶15, ¶21, ~~¶75, ¶79, ¶88, and ¶89~~ ¶75; GASBS 34, ¶13, ¶30, ~~¶53, ¶80, ¶82, ¶101, ¶108, ¶112~~, and ¶125, as amended by GASBS 63, ¶8; GASBS 34, ¶16, as amended by GASBS 63, ¶7 and ¶8, ~~and GASBS 81, ¶24–¶28, and GASBS XX, fn 10~~; GASBS 34, ¶18, as amended by GASBS 72, ¶79 and GASBS 89, ¶4; GASBS 34, ¶22, as amended by GASBS 81, ¶27; GASBS 34, ¶63, as amended by GASBS 84, ¶5 and ¶18 and GASBS XX, ¶28; GASBS 34, ¶53, as amended by GASBS 63, ¶8 and GASBS XX, ¶10; GASBS 34, ¶82, as amended by GASBS 63, ¶8 and GASBS XX, ¶20; GASBS 34, ¶88, as amended by GASBS XX, ¶9 and ¶27; GASBS 34, ¶89, as amended by GASBS XX, ¶9, ¶10, and ¶27; GASBS 34, ¶92, as amended by GASBS 63, ~~¶8 and~~ GASBS 81, ¶27, and GASBS XX, fn10; GASBS 34, ¶100, as amended by GASBS 48, ¶21, GASBS 63, ¶8, and GASBS 63, ¶8XX, ¶29; GASBS 34, ¶107, as amended by GASBS 67, ¶20, GASBS 73, ¶115 and ¶116, GASBS 74, ¶26, GASBS 81, ¶27, ~~and GASBS 84, ¶18 and ¶21, GASBS 92, ¶8, and GASBS XX, fn10~~; GASBS 34, ¶112, as amended by GASBS 63, ¶8 and GASBS XX, ¶27 and ¶30; GASBS 34, ¶130, as amended by GASBS 41, ¶3 and GASBS XX, ¶28 and ¶34; GASBS 37, ¶10, as amended by GASBS XX, ¶11; GASBS 42, ¶9; GASBS 44; GASBS 51, ¶17; GASBS 54, ¶28, as amended by GASBS XX, ¶28; GASBS 84, ¶14 and ¶26; GASBBS 84, ¶22, as amended by GASBS 92, ¶9; GASBS XX, ¶12, ¶30, and ¶34]

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND LEGAL COMPLIANCE

SECTION 1200

Sources: NCGAS 1, GASBS 38

See also: Section 1300, “Fund Accounting”
Section 1700, “The Budget and Budgetary Accounting”
Section 2100, “Defining the Financial Reporting Entity”
Section 2200, “Comprehensive Annual Financial Report”
Section 2300, “Notes to Financial Statements”
Section 2400, “Budgetary Reporting”
Section N50, “Nonexchange Transactions”

Statement of Principle Accounting and Reporting Capabilities

A governmental accounting system must make it possible both:
(a) to present fairly and with full disclosure the funds and activities of
the governmental unit in conformity with generally accepted
accounting principles, and (b) to determine and demonstrate
compliance with finance-related legal and contractual provisions.
[NCGAS 1, ¶2, as amended by GASBS 34, ¶6]

Generally Accepted Accounting Principles

.101 Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments—regardless of jurisdictional legal provisions and customs—contain the same types of financial statements and disclosures, for the same categories and types of funds and activities, based on the appropriate measurement and classification criteria. [NCGAS 1, ¶3, as amended by GASBS 34, ¶15, ¶80, and ¶82]

.102 Adherence to GAAP is essential to assuring a reasonable degree of comparability among the financial reports of state and local governmental units. Governmental accounting systems thus must provide data that permit reporting on the financial status and operations of a government in conformity with GAAP. This Codification sets forth the application of GAAP to state and local governmental units. It establishes standards for comprehensive annual financial reports as well as management’s discussion and analysis (MD&A), basic financial statements, and required supplementary information other than MD&A. [NCGAS 1, ¶4, as amended; GASBS 34, ¶6, as amended by GASBS XX, ¶4–¶11, ¶30–¶33; GASBS XX, ¶4–¶11, ¶27, and ¶29–¶34]

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General Principles

~~102.103~~ An important aspect of GAAP as applied to governments is the recognition of the variety of legal and contractual considerations typical of the government environment. These considerations underlie and are reflected in the fund structure, measurement focuses and bases of accounting, and other principles and methods set forth here, and are a major factor distinguishing governmental accounting from commercial accounting. Governmental accounting systems designed in conformity with these principles can readily satisfy most management control and accountability information needs with respect to both GAAP and legal compliance reporting. [NCGAS 1, ¶5, as amended by GASBS XX, fn10]

Compliance with Legal Provisions

~~103.104~~ Government financial operations evolve from and are regulated by various kinds of legal provisions. Constitutional provisions may dedicate certain tax ~~revenues for expenditure~~ inflows of resources for budgetary outflows of resources for particular purposes, and statutes may spell out in detail such things as tax rate limits, methods of collection, discounts, and delinquency dates. These and many other types of financial matters often are also regulated by charters, ordinances, resolutions, governing body orders, and intergovernmental grant or contract regulations. [NCGAS 1, ¶6, as amended by GASBS XX, ¶27]

~~104.105~~ The annual operating budget, a legally adopted plan of financial operation embodying estimates of proposed ~~expenditures~~ budgetary outflows of resources for specific purposes and the proposed means of financing them, is one of the most important of all legal documents governing financial transactions. (See Section 1700.) On legislative approval, the ~~expenditure~~ budgetary outflows of resources requests in the budget become binding appropriations that may not legally be exceeded by the government's operating agencies. Taxes and other ~~revenue~~ inflows of resources sources that finance budgeted ~~expenditures~~ outflows of resources require legislative enactment, either in the form of an annual tax ordinance, as in the case of property taxes, or by continuing statutes or ordinances for such ~~revenues~~ inflows of resources as sales taxes and income taxes. [NCGAS 1, ¶7, as amended by GASBS XX, ¶27]

~~105.106~~ An important function of governmental accounting systems is to enable administrators to assure, and report on, compliance with finance-related legal provisions. This means that the accounting system—its terminology, fund structure, and procedures— must take cognizance of and be adapted to satisfy finance-related legal requirements. For example, if a state constitution requires that proceeds of a state gasoline tax be accounted for in a state highway construction fund and used exclusively for capital outlays on highways and public roads, the accounting system must enable the governmental unit to demonstrate compliance with the constitutional mandate. [NCGAS 1, ¶8]

Bases for Fund Establishment

107 Various types of legal provisions require establishment of funds. At the state level, funds may be created pursuant to constitutional provisions or statutes enacted by the legislative body. A local government's funds may be established by state constitutional provisions or statutes, or by local charters, ordinances, and governing body orders. Funds may also be created by the governing body to achieve sound

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and expeditious financial administration and reporting and/or to comply with grant or contract accounting and financial reporting requirements. (See Section 1300 for a discussion of fund requirements.) [NCGAS 1, ¶23]

Conflicts between Legal Provisions and GAAP

~~106.108~~ Legal provisions may conflict with GAAP. These differences often occur because constitutional, charter, or other legal provisions governing fiscal operations are antiquated and difficult to change. [NCGAS 1, ¶9]

~~107.109~~ A variety of possible conflicts of this kind may be encountered. One type can arise from statutory specification of fund purpose and accounting requirements. For example, law may require that both operating and capital ~~expenditures~~outflows of resources for a designated general governmental function be paid from and accounted for through the general fund, even though the ~~capital expenditures~~capital outflows of resources are financed by long-term borrowing. Such a provision violates the generally accepted accounting principle that such capital outlays financed from general obligation bond proceeds be accounted for through a capital projects fund. Another example would be the statutory requirement of the cash basis of accounting for an enterprise fund, whereas the economic resources measurement focus and accrual basis of accounting is essential to determining an enterprise's financial position and operating results in conformity with GAAP. [NCGAS 1, ¶10, as amended by GASBS XX, ¶127 and fn10]

~~108.110~~ Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system may be maintained on a legal compliance basis, but should include sufficient additional reports to permit GAAP-based reporting. Preparation of the budget on the cash basis or another basis not consistent with GAAP complicates financial management and reporting. Where legal requirements dictate another basis, governmental units typically (a) maintain the accounts and prepare budgetary reports on the legally prescribed budgetary basis to determine and to demonstrate legal compliance, and (b) maintain sufficient supplemental records to permit presentation of financial statements in conformity with GAAP. [NCGAS 1, ¶13 and ¶88]

~~109.111~~ The budget determines the nature and scope of most governmental fund financial operations by setting the amounts and sources of estimated ~~revenues and transfers in~~budgetary inflows of resources, on the one hand, and the amounts and purposes of authorized ~~expenditures and transfers out~~budgetary outflows of resources, on the other. The accounts of several types of governmental funds record, in summary and detail, both the planned ~~revenues, expenditures~~budgetary inflows of resources, budgetary outflows of resources, and ~~transfers and~~ the actual transactions. In the absence of significant conflicts between legal provisions and generally accepted accounting principles, the financial statements summarize the results of financial operations and financial position as reflected in the accounts. Again, where legal provisions conflict with GAAP, legal-basis data typically are reflected in the accounts and are used as the starting point for deriving statements prepared in conformity with GAAP. [NCGAS 1, ¶125, as amended by GASBS XX, ¶127]

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General Principles

GAAP Reporting Essential

~~.110.112~~ The basic financial statements of governmental units should be prepared in conformity with GAAP. Furthermore, state or local governments that want their independent auditors to express unqualified opinions that their financial statements are prepared in conformity with GAAP obviously must prepare statements in accordance with these principles. GAAP-based reporting requires disclosure of significant violations of legal and contractual provisions and actions taken to address such violations. (See Section 2300.) [NCGAS 1, ¶11; GASBS 38, ¶9]

Legal Compliance Reporting Essential

~~.111.113~~ Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. (Budgetary reporting and budget-GAAP reporting differences are discussed more fully in Section 2400.) In extreme cases, preparation of a separate legal-basis special report may be necessary.¹ [NCGAS 1, ¶12]

Reducing Conflicts

~~.112.114~~ The existence of legal provisions that conflict with GAAP is unfortunate because such provisions complicate the accounting process and the preparation of financial statements. Responsible public officials and others concerned with public financial management should continually strive to obtain necessary changes in applicable laws to bring them into agreement with GAAP. Under ideal circumstances, the substantive detail of accounting principles, systems, and practices in government should be left primarily to administrative determination and implementation rather than being written into law. Formal legal enactments should be limited to provisions of a basic and general nature, such as the provision that the government's financial statements are to be prepared in conformity with GAAP and that its financial statements are to be audited in accordance with generally accepted auditing standards. [NCGAS 1, ¶15]

¹Some governments desire an independent auditor's opinion on conformity of their financial statements with legal requirements. *Audits of State and Local Governmental Units*, the 1974 Industry Audit Guide prepared by the American Institute of Certified Public Accountants (AICPA), focuses primarily on audits of GAAP-based financial statements. [That guide was revised and reissued in 2002.] The AICPA also provides guidance to auditors engaged to express an opinion on financial statements prepared to reflect legal provisions or other criteria different from GAAP, known as "special reports." [NCGAS 1, ¶14]

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Other Considerations

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- a. Section 2200, paragraph .105, discusses use of narrative explanations, statements, and schedules to show compliance with legal and contractual provisions.
- b. Section I50, "Investments," paragraphs .114 and .115, and Section I55, "Investments—Reverse Repurchase Agreements," paragraphs .109 and .110, discuss disclosures about legal or contractual provisions for deposits, investments (including repurchase agreements), and reverse repurchase agreements.
- c. Section L20, "Leases," paragraph .110, discusses the effects of legal restrictions on GAAP for lease transactions.
- d. Section P90, "Public-Private Partnerships," paragraph .108, discusses the effects of legal restrictions on GAAP for transactions related to public-private and public-public partnership arrangements.
- e. Section S40, "Special Assessments," paragraph .113, discusses compliance with legal requirements when reporting on special assessment activities
- f. Section S80, "Subscription-Based Information Technology Arrangements," paragraph .107 discusses the effects of legal restrictions on GAAP for transactions related to subscription-based information technology arrangements.

FUND ACCOUNTING

SECTION 1300

Sources: NCGAS 1, NCGAI 9, GASBS 6, GASBS 14, GASBS 34, GASBS 37, GASBS 38, GASBS 51, GASBS 54, GASBS 84, GASBS XX, GASBI 3, GASBIG 2015-1, GASBIG 2016-1, GASBIG 2019-2, GASBIG 2020-1

See also: Section 1600, "Basis of Accounting"
Section 1800, "Classification and Terminology"
Section 2200, "Comprehensive Annual Financial Report"

Statements of Principle Fund Accounting Systems

Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other ~~financial resources~~ related assets, together with all related liabilities and residual ~~equities~~ net position or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Fund financial statements should be used to report additional and detailed information about the primary government, including its blended component units. The focus of governmental and proprietary fund financial statements is on *major* funds. [NCGAS 1, ¶16, as amended by GASBS XX, fn10; GASBS 34, ¶16 and ¶75]

Fund Types

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

- a. Governmental funds (emphasizing major funds)
 - (1) The general fund
 - (2) Special ~~revenue~~ resources funds
 - (3) Capital projects funds
 - (4) Debt service funds
 - (5) Permanent funds
- b. Proprietary funds
 - (6) Enterprise funds (emphasizing major funds)
 - (7) Internal service funds

- c. Fiduciary funds (including fiduciary component units)
 - (8) Pension (and other employee benefit) trust funds
 - (9) Investment trust funds
 - (10) Private-purpose trust funds
 - (11) Custodial funds.

[GASBS 34, ¶63, as amended by GASBS 84, ¶15 and ¶18; and GASBS XX, ¶128; GASBS 54, ¶128, as amended by GASBS XX, ¶128; GASBS 84, ¶14; GASBS XX, ¶128]

Number of Funds

Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration. [NCGAS 1, ¶29]

Governmental Environment

.101 The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Unlike a private business, which is accounted for as a single entity, a governmental unit is accounted for through several separate fund entities, each accounting for designated assets, liabilities, and equity or other balances. Thus, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently. [NCGAS 1, ¶17, as amended by GASBS 34, ¶80 and ¶82]

Fund Categories

.102 Fund financial statements should be used to report additional and detailed information about the primary government. Governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds.

- a. *Governmental fund* reporting focuses primarily on the ~~sources, uses~~ inflows, outflows, and balances of ~~current~~ short-term financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special ~~revenue~~ resources funds, capital projects funds, debt service funds, and permanent funds.

Governmental funds are, in essence, accounting segregations of short-term financial resources. ~~Expendable~~ Short-term assets are assigned to the various governmental funds

according to the purposes for which they may or must be used; ~~current~~short-term liabilities are assigned to the fund from which they are to be paid; and the difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources, the fund equity, is referred to as “Fund Balance.”

~~Financial.~~ The financial statements for governmental funds should be presented ~~using~~applying the ~~current~~short-term financial resources measurement focus and ~~the~~ accrual basis of accounting, ~~as the terms are discussed in Section 1600.~~ The governmental fund measurement focus is on determination of *financial position* and *changes in financial position* (sources, uses, inflows, outflows, and balances of short-term financial resources).

The financial statements required for governmental funds are a short-term financial resources balance sheet and a statement of revenues, expenditures, and changes in fund balancesshort-term financial resource flows. These statements may be supported or supplemented by more detailed schedules.

- b. *Proprietary fund* reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

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

Required financial statements for proprietary funds are a statement of fund net position; a statement of revenues, expenses, and changes in fund net position; and a statement of cash flows.

- c. *Fiduciary fund* reporting focuses on net position and changes in net position. Fiduciary funds should be used to report fiduciary activities, as discussed in paragraphs .128–.134. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The three types of trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics.

Financial statements of fiduciary funds should be reported using the economic resources measurement focus and ~~the~~ accrual basis of accounting. The recognition of certain liabilities of fiduciary funds is discussed in paragraph .132~~8~~ of Section 1600.

Required financial statements for fiduciary funds are the statement of fiduciary net position and the statement of changes in fiduciary net position. Fiduciary fund financial statements should include information about all fiduciary funds of the primary government, including fiduciary component units.

[NCGAS 1, ¶18, as amended by GASBS XX, ¶12; GASBS 34, ¶63; GASBS 34, ¶64, as amended by GASBS XX, ¶12; GASBS 34, ¶66, ¶91, and ¶92, as amended by GASBS 63, ¶7, ¶8, and ¶12 and GASBS XX, ¶30; GASBS 34, ¶69, as amended by GASBS 63, ¶7, ¶8, and ¶12 and GASBS 84, ¶5–¶18; GASBS 34, ¶106, as amended by GASBS 63, ¶7, ¶8, and ¶12 and GASBS 84, ¶5 and ¶18; GASBS 34, ¶107, as amended by GASBS 67, ¶20, GASBS 73, ¶115 and ¶116, GASBS 74, ¶26, and GASBS 84, ¶18 and ¶21, GASBS 92, ¶8, and GASBS XX, ¶10; GASBS 54, ¶28, as amended by GASBS XX, ¶28; GASBS 84, ¶22, as amended by GASBS 92, ¶9; GASBS XX, ¶11 and ¶12]

Fund Types

.103 In fund financial statements, governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds.¹

- a. Governmental funds (emphasizing major funds)
 - (1) The general fund
 - (2) Special ~~revenue~~ resources funds
 - (3) Capital projects funds
 - (4) Debt service funds
 - (5) Permanent funds
- b. Proprietary funds
 - (6) Enterprise funds (emphasizing major funds)
 - (7) Internal service funds
- c. Fiduciary funds (including fiduciary component units)
 - (8) Pension (and other employee benefit) trust funds
 - (9) Investment trust funds
 - (10) Private-purpose trust funds
 - (11) Custodial funds.

[GASBS 34, ¶63, as amended by GASBS 84, ¶5 and ¶18 ;and GASBS XX, ¶28; GASBS 54, ¶28, as amended by GASBS XX, ¶28; GASBS 84, ¶14; GASBS XX, ¶28]

Governmental Funds

.104 The *general fund* should be used to account for and report all financial resources not accounted for and reported in another fund. [GASBS 54, ¶29]

¹The special assessment fund type, as identified in NCGA Statement 1, should not be used in basic financial statements [except to demonstrate legal compliance in the combined budgetary comparison statement]. See Section S40, “Special Assessments.” [GASBS 6, ¶13]

.105 *Special ~~revenue~~resources funds* are used to account for and report the proceeds of specific ~~revenue sources~~inflows of short-term financial resources from current activities other than transfers that are restricted or committed to ~~expenditure~~use for specified purposes other than debt service or capital projects. The term *proceeds of specific ~~revenue sources~~inflows of short-term financial resources from current activities other than transfers* establishes that one or more specific restricted or committed ~~revenues~~inflows of short-term financial resources should be the foundation for a special ~~revenue~~resources fund. Those specific restricted or committed ~~revenues~~inflows of short-term financial resources may be initially received in another fund and subsequently distributed to a special ~~revenue~~resources fund. Those amounts should not be recognized as ~~revenue~~inflows of short-term financial resources in the fund initially receiving them; however, those inflows should be recognized as ~~revenue~~inflows of short-term financial resources in the special ~~revenue~~resources fund in which they will be ~~expended~~used in accordance with specified purposes. The restricted or committed proceeds of specific ~~revenue sources~~inflows of short-term financial resources from current activities other than transfers should be expected to continue to comprise a substantial portion of the inflows reported in the fund.² Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. A stabilization arrangement (as discussed in paragraphs .180 and .181 of Section 1800) would satisfy the criteria to be reported as a separate special ~~revenue~~resources fund only if the resources derive from a specific restricted or committed ~~revenue source~~inflow of short-term financial resources from current activities other than transfers. Governments should discontinue reporting a special ~~revenue~~resources fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed ~~revenue sources~~inflows of short-term financial resources from current activities other than transfers. Resources restricted to ~~expenditure~~use for purposes normally financed from the general fund may be accounted for through the general fund provided that applicable legal requirements can be appropriately satisfied; and use of special ~~revenue~~resources funds is not required unless they are legally mandated. The general fund of a blended component unit should be reported as a special ~~revenue~~resources fund. Special ~~revenue~~resources funds should not be used to account for resources held as a fiduciary activity. Governments should disclose in the notes to the financial statements the purpose for each major special ~~revenue~~resources fund—identifying which ~~revenues and other~~inflows of short-term financial resources are reported in each of those funds. [NCGAS 1, ¶130, as amended by GASBS XX, ¶127 and ¶128; GASBS 14, ¶154; as amended by GASBS XX, ¶128; GASBS 54, ¶21, ¶31, and ¶32, as amended by GASBS XX, ¶128; GASBS 54, ¶130, as amended by GASBS 84, ¶14 and GASBS XX, ¶122 and ¶128; GASBS XX, ¶128]

.106 *Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to ~~expenditure~~outflows of short-term financial resources for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held as a fiduciary activity. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund. [NCGAS 1, ¶10; GASBS 54, ¶133, as amended by GASBS 84, ¶14 and GASBS XX, ¶123]

.107 *Debt service funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure outflows of short-term financial resources for principal and interest. Debt service funds

²~~For revolving loan arrangements that are initially funded with restricted grant revenues, the consideration may be whether those restricted resources continue to comprise a substantial portion of the fund balance in the fund's balance sheet. [GASBS 54, fn2]~~
, superseded by GASBS XX, ¶12, ¶13 and ¶14]

should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds. The debt service transactions of a special assessment issue for which the government is not obligated in any manner should be reported in a custodial fund (see paragraph .115) rather than a debt service fund. [GASBS 6, ¶19, as amended by GASBS 84, ¶18; GASBS 54, ¶34, as amended by GASBS XX, ¶23]

.108 *Permanent funds* should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.⁴² Permanent funds do not include private-purpose trust funds (defined in paragraph .114). [GASBS 34, ¶65; GASBS 54, ¶35, as amended by GASBS 84, ¶17]

Proprietary Funds

.109 *Enterprise funds* may be used to report any activity for which a fee is charged to external users for goods or services or fiduciary activities that have the characteristics in paragraph .116 of this section. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's *principal revenue sources*.⁴³

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)

³~~An~~²~~An~~ example is a cemetery perpetual-care fund, which provides resources for the ongoing maintenance of a public cemetery. [GASBS 34, fn32]

⁴~~These~~³~~These~~ criteria do not require insignificant activities of governments to be reported as enterprise funds. For example, state law may require a county's small claims court to assess plaintiffs a fee to cover the cost of frivolous claims. However, taxes, not fees, are the principal revenue source of the county's court system, and the fees in question cover only the cost of frivolous small claims court cases. In this case, the county would not be required to remove its court system or the small claims court activity from its general fund and report it in an enterprise fund. Conversely, a state department of environmental protection regulation may require a water utility to recover the costs of operating its water plant, including debt service costs, through charges to its customers—the utility's principal revenue source. Because these charges are the activity's principal revenue source and because the water utility is required to recover its costs, the utility should be reported as an enterprise fund. [GASBS 34, fn33]

- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as ~~depreciation~~⁵ depreciation⁴ or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.^{6,5}
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).^{7,6}

[GASBS 34, ¶167, as amended by GASBS 84, ¶19]

.110 *Internal service funds* may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. [GASBS 34, ¶168]

Fiduciary Funds

.111 The fiduciary fund used to report fiduciary activities (see paragraphs .128–.136) should be based on the requirements in paragraphs .112–.115, except as provided in paragraph .116. [GASBS 84, ¶14]

.112 *Pension (and other employee benefit) trust funds* are used to report fiduciary activities for the following:

- a. Pension plans and OPEB plans that are administered through trusts that meet the criteria in paragraph .101 of Section Pe5, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit," paragraph .101 of Section Pe6, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Contribution," paragraph .101 of Section Po50, "Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria— Defined Benefit," or paragraph .101 of Section Po51, "Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria— Defined Contribution," respectively
- b. Other employee benefit plans for which (1) resources are held in a trust that meets the criteria in paragraph .134c(1) of this section and (2) contributions to the trust and earnings on those contributions are irrevocable.

[GASBS 84, ¶15]

⁵~~As~~⁴As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶15]

⁶~~Based~~⁵Based on this criterion, state unemployment compensation funds should be reported in enterprise funds. [GASBS 34, fn34]

⁷~~The~~⁶The focus of these criteria is on fees charged to external users. [GASBS 37, ¶14]

1300.113

General Principles

.113 *Investment trust funds* are used to report fiduciary activities from the external portion of investment pools and individual investment ~~accounts~~⁸accounts⁷ that are held in a trust that meets the criteria in paragraph .134c(1). [GASBS 84, ¶16]

.114 *Private-purpose trust funds* are used to report all fiduciary activities that (a) are *not* required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust that meets the criteria in paragraph .134c(1). [GASBS 84, ¶17]

.115 *Custodial funds* are used to report fiduciary activities that are *not* required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust that meets the criteria in paragraph .134c(1) of this section should be reported in a separate *external investment pool fund* column, under the custodial funds classification. [GASBS 84, ¶18]

.116 Business-type activities, including enterprise funds, may report assets with a corresponding liability that otherwise should be reported in a custodial fund in the statement of net position of the business-type activity if those assets, upon receipt, are normally expected to be held for three months or less. A business-type activity that chooses to report such assets and liabilities in its statement of net position should separately report additions and deductions, if significant, as cash inflows and cash outflows, respectively, in the operating activities category of its statement of cash flows. [GASBS 84, ¶19]

Bases for Fund Establishment

.117 Various types of legal provisions require establishment of funds.^{9b} At the state level, funds may be created pursuant to constitutional provisions or statutes enacted by the legislative body. A local government's funds may be established by state constitutional provisions or statutes, or by local charters, ordinances, and governing body orders. Funds may also be created by the governing body to achieve sound and expeditious financial administration and reporting and/or to comply with grant or contract accounting and financial reporting requirements. [NCGAS 1, ¶23]

⁸~~For~~⁷For purposes of this paragraph, the definition of individual investment accounts provided in paragraph .529 of Section 150, "Investments," should be applied. That paragraph defines individual investment accounts as, "An investment service provided by a governmental entity for other, legally separate entities that are not part of the same reporting entity. With individual investment accounts, specific investments are acquired for individual entities and the income from and changes in the value of those investments affect only the entity for which they were acquired." [GASBS 84, fn6]

⁹~~Section~~^aSection 1200, "Generally Accepted Accounting Principles and Legal Compliance," presents a general discussion of the effects of legal compliance on GAAP for state and local governments.

Number of General Funds

.118 The paragraph .104 definition of the general fund precludes multiple general funds. Governments shall report only one general fund. As discussed in Section 2600, “Reporting Entity and Component Unit Presentation and Disclosure,” because the primary government’s general fund is usually the main operating fund of the reporting entity and often is a focal point for report users, its general fund should be the only general fund for the reporting entity. The general fund of a blended component unit should be reported as a special revenue resources fund. [NCGAI 9, ¶10; GASBS 14, ¶54, as amended by GASBS XX, ¶128]

Number of Other Funds

.119 Some governmental units often need several funds of a single type, such as special revenue resources or capital projects funds. On the other hand, many governmental units do not need funds of all types at any given time. Some find it necessary to use only a few of the specified types. For example, many small governmental units do not require internal service funds. Moreover, resources restricted to expenditure use for purposes normally financed from the general fund may be accounted for through the general fund provided that applicable legal requirements can be appropriately satisfied; and use of special revenue resources funds is not required unless they are legally mandated. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds. ~~(See Section 1600, paragraph .124, about fund expenditure and liability recognition.)~~ [NCGAS 1, ¶30, as amended by GASBS 6, ¶13 and GASBS XX, ¶127 and ¶128; GASBS 54, ¶34]

.120 The general rule is to establish the minimum number of separate funds consistent with legal specifications, operational requirements, and the principles of fund classification discussed above. Using too many funds causes inflexibility and undue complexity in budgeting, accounting, and other phases of financial management, and is best avoided in the interest of efficient and economical financial administration. [NCGAS 1, ¶31]

Other Matters

Separate Fund Records Required

.121 Each fund must be accounted for in a separate self-balancing set of accounts for its assets, liabilities, equity, inflows of short-term financial resources or revenues, expenditures (as appropriate), outflows of short-term financial resources or expenses (as appropriate), and transfers. This requirement of a complete set of accounts for each fund refers to identification of accounts in the accounting records, and does not necessarily extend to physical segregation of assets or liabilities. For example, it is not necessary to have a separate bank account for each fund unless required by law, bond indenture, or other reason. Likewise, governmental units using system computerization and account coding techniques may treat these separate accounting entities as independent subcomponents of a unified government accounting system. [NCGAS 1, ¶21, as amended by GASBS XX, ¶122 and ¶123]

Interfund Receivables and Payables

.122 Interfund loans are amounts provided with a requirement for repayment, as discussed in Section 1800, paragraph .102. Since each fund is a fiscal and accounting entity, the amounts due to one fund from other funds, as well as the amounts owed to other funds, should be reflected in the fund accounts and in fund financial statements. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds. Where money is owed from one fund to another fund and money is also owed from the latter to the former, the amounts receivable and payable should not be offset in the *accounts*. But for purposes of *reporting*, *current* amounts due from and due to the same funds *may* be offset and the net amounts shown in the respective fund balance sheets.¹⁰⁹ Liabilities arising from interfund activities do not constitute general long-term liabilities and therefore should be reported in governmental funds. [NCGAS 1, ¶122 and fn5; GASBS 34, ¶181 and ¶112]

Classifications of Funds

.123 Funds may be distinguished according to whether they are established constitutionally, statutorily, or by other governing body action. The basis for establishing funds is particularly important when considering the discretion the chief executive officer or the governing body can exercise. [NCGAS 1, ¶124]

.124 Another classification of funds, by fund type, takes into account both the sources of fund financial resources and the nature of activities financed. This classification is valuable in managing and controlling current financial operations and for determining compliance with applicable legal provisions. [NCGAS 1, ¶125, as amended by GASBS 6, ¶13 and GASBS 34, ¶63]

Period versus Project Orientation of Funds

.125 The transactions of most of the funds are planned and evaluated annually, and may be controlled by annual appropriations. To determine budgetary compliance and/or the results of financial operations, these funds must be accounted for on a fiscal year basis. Thus, the accounting and reporting for most governmental funds and all proprietary and fiduciary funds may be categorized as *period*-oriented. [NCGAS 1, ¶127, as amended by GASBS 6, ¶13 and GASBS 34, ¶63]

.126 On the other hand, capital outlay transactions financed through capital projects funds typically are planned and evaluated on a project basis. Capital outlay projects financed through these *project*-oriented funds often extend over two or more fiscal years.

¹⁰⁹ For purposes of this section, the term *balance sheet* includes the governmental fund short-term financial resources balance sheet, the proprietary fund statement of fund net position, and the statement of fiduciary net position required to be presented as components of the basic financial statements, as discussed in Section 2200. [GASBI 3, fn1, as amended by GASBS 63, ¶18; GASBS 34, ¶91 and ¶106, as amended by GASBS 63, ¶18; and GASBS 63, ¶10XX, ¶111]

Thus, fund accounting records should reflect total project inflows of short-term financial resources and expenditures outflows of short-term financial resources to date as well as fund transactions of the current fiscal year and fund financial position at the end of the current fiscal year. [NCGAS 1, ¶28, as amended by GASBS 6, ¶132213 and GASBS XX, ¶22 and ¶23]

Disclosure of Fund Activities

.127 Governments that present their primary government in more than a single column in their basic financial statements should disclose in their summary of significant accounting policies the activities accounted for in each of the following columns— major funds, internal service funds, and each type of fiduciary fund— presented in the basic financial statements. With the exception of the general fund or its equivalent, the descriptions should be specific to the particular government, rather than general definitions that could describe any government. For example, activities of the road fund could be described as maintenance and preservation of local roads financed with local fuel taxes. Activities of internal service funds could be described as provision of information technology, facilities management, and fleet services to other funds on a cost-reimbursement basis. [GASBS 38, ¶6, as amended by GASBS 84, ¶14–¶18]

Identification of Fiduciary Activities

.128 A primary government or its component units may be engaged in fiduciary activities. A component unit is a fiduciary activity (a fiduciary component unit) if it meets the criteria set forth in paragraphs .129–.132, as applicable. Other activities are fiduciary activities if they meet the criteria in paragraph .133 or paragraph .134. [GASBS 84, ¶5]

.129 An organization that meets the component unit criteria in Section 2100, “Defining the Financial Reporting Entity,” is a fiduciary activity if it is one of the following arrangements:

- a. A pension plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5 or paragraph .101 of Section Pe6
- b. An other postemployment benefit (OPEB) plan that is administered through a trust that meets the criteria in paragraph .101 of Section Po50 or paragraph .101 of Section Po51
- c. A circumstance in which assets from entities that are *not* part of the reporting entity are accumulated for pensions as described in paragraph .106 of Section P23, “Reporting Assets Accumulated for Defined Benefit Pensions Not Provided through Trusts That Meet Specified Criteria”
- d. A circumstance in which assets from entities that are *not* part of the reporting entity are accumulated for OPEB as described in paragraph .108 of Section P53, “Reporting Assets Accumulated for Defined Benefit Postemployment Benefits Other Than Pensions Not Provided through Trusts That Meet Specified Criteria.”

[GASBS 84, ¶6]

.130 Generally, pension plans that are administered through trusts that meet the criteria in paragraph .101 of Section Pe5 or paragraph .101 of Section Pe6 and OPEB plans that are administered through trusts that meet the criteria in paragraph .101 of Section Po50 or paragraph .101 of Section Po51 are legally separate entities. In determining whether those legally separate entities are component units, a primary government is considered to have a financial burden relative to a defined benefit pension plan or defined benefit OPEB plan if it is legally obligated or has otherwise assumed the obligation to make contributions to the defined benefit pension plan or defined benefit OPEB plan. [GASBS 84, ¶7, as amended by GASBS 97, ¶5]

.131 A component unit, that is not a pension arrangement or OPEB arrangement as described in paragraphs .129a–.129d, is a fiduciary activity if the assets associated with the activity have one or more of the following characteristics:

- a. The assets are (1) administered through a trust agreement or equivalent arrangement (hereafter jointly referred to as a trust) in which the government itself is not a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
- b. The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets.¹¹¹⁰ In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
- c. The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

[GASBS 84, ¶8]

.132 In determining whether a component unit is a fiduciary component unit, control of the assets of the component unit by the primary government (as discussed in paragraph .135) is *not* a factor to be considered. [GASBS 84, ¶9]

.133 If they are not component units, the following pension and OPEB arrangements are fiduciary activities if the government controls the assets of the arrangement (as described in paragraph .135 of this section):

¹¹¹⁰ For purposes of this provision, a government has administrative involvement with the assets if, for example, it (a) monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity, (b) determines eligible expenditures~~costs~~ that are established by the government or by a resource provider that does not receive the direct benefits of the activity, or (c) has the ability to exercise discretion over how assets are allocated. A government has direct financial involvement with the assets if, for example, it provides matching resources for the activities. [GASBS 84, fn1, as amended by GASBS XX, ¶27]

- a. A pension plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5 or paragraph .101 of Section Pe6
- b. An OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Po50 or paragraph .101 of Section Po51
- c. A circumstance in which assets from entities that are *not* part of the reporting entity are accumulated for pensions as described in paragraph .106 of Section P23
- d. A circumstance in which assets from entities that are *not* part of the reporting entity are accumulated for OPEB as described in paragraph .108 of Section P53.

[GASBS 84, ¶10]

.134 For activities not addressed in paragraphs .129–.133, the activity is a fiduciary activity if all of the following criteria are met:

- a. The assets associated with the activity are controlled by the government (as described in paragraph .135).
- b. The assets associated with the activity are *not* derived either:
 - (1) Solely from the government’s own-source revenues (as described in paragraph .136) or
 - (2) From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does *not* have administrative involvement or direct financial involvement.¹²¹¹
- c. The assets associated with the activity have one or more of the following characteristics:
 - (1) The assets are (a) administered through a trust in which the government itself is *not* a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government.
 - (2) The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets.¹²¹² In addition, the assets are *not* derived from the government’s provision of goods or services to those individuals.

¹²¹¹For purposes of this provision, the descriptions of administrative involvement and direct financial involvement of a government that is a recipient of a pass-through grant provided in paragraph .128 of Section N50, “Nonexchange Transactions,” should be applied. That paragraph states, “A recipient government has administrative involvement if, for example, it (a) monitors secondary recipients for compliance with program-specific requirements, (b) determines eligible secondary recipients or projects, even if using grantor-established criteria, or (c) has the ability to exercise discretion in how the funds are allocated. A recipient government has direct financial involvement if, for example, it finances some direct program costs because of a grantor-imposed matching requirement or is liable for disallowed costs.” [GASBS 84, fn2]

¹²¹²See footnote 1110. [GASBS 84, fn3]

- (3) The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

[GASBS 84, ¶11]

.135 A government controls the assets of an activity if the government (a) holds the assets or (b) has the ability to direct the use,¹⁴¹³ exchange, or employment of the ~~assets~~¹⁵ assets¹⁴ in a manner that provides benefits to the specified or intended recipients. Restrictions from legal or other external restraints that stipulate the assets can be used only for a specific purpose do not negate a government's control of the assets. [GASBS 84, ¶12]

.136 Own-source revenues are revenues that are generated by a government itself. They include exchange and exchange-like revenues (for example, water and sewer charges) and investment earnings. Derived tax revenues (such as sales and income taxes) and imposed nonexchange revenues (such as property taxes) also are included. [GASBS 84, ¶13]

¹⁴~~For~~¹³ For purposes of this paragraph, a government uses an asset when it ~~expends~~^{uses} or consumes that asset for the benefit of individuals, organizations, or other governments, outside of the government's provision of services to them. [GASBS 84, fn4, as amended by GASBS XX, ¶127]

¹⁵~~When~~¹⁴ When a government appoints a designee to act on its behalf, the designee is performing the government's fiduciary duties and not assuming them. Thus, appointing a designee to act on its behalf does not alter the government's ability to direct the use, exchange, or employment of the assets. [GASBS 84, fn5]

GASB IMPLEMENTATION GUIDES**.701 Governmental Environment**

No questions assigned.

.702 Fund Categories

No questions assigned.

.703 Fund Types

.703-1 Q—A city charges a storm water fee that is restricted by enabling legislation for storm water activities. Storm water activities, as defined in the legislation, include capital projects and operational ~~expenditures~~ outflows of resources. The costs are not expected to be fully recovered through the fee because approximately 25 percent of the costs will be covered through a general fund transfer. Also, depreciation and debt service are not expected to be recovered through the fee. Can the city use a special ~~revenue~~ resources fund to account for the storm water activity?

A—Yes. Use of an enterprise fund is not required. Even though the restriction on the use of the fees includes spending for capital projects, the fees are not restricted specifically to capital projects, as discussed in paragraph .105 of this section, so a special ~~revenue~~ resources fund can be used to account for the storm water operation.

[GASBIG 2016-1, Q4.73, as amended by GASBS XX, ¶27 and ¶28]

.704 Governmental Funds

.704-1 Q—A state government establishes a separate fund to account for financial resources that are restricted by enabling legislation. Language in that legislation limits the fund's ~~expenditures~~ outflows of resources so that a minimum fund balance (determined by formula) is maintained; thus, a portion of the fund's resources is considered "permanently invested." Should this fund be classified as a special ~~revenue~~ resources fund or a permanent fund?

A—Either fund type could be used with nonspendable fund balance reported for the amount that is required to be maintained intact and restricted fund balance reported for the balance of the restricted resources.

[GASBIG 2015-1, Q7.49.1, as amended by GASBS XX, ¶27 and ¶28]

.704-2 Q—Paragraph .108 of this section states that permanent funds should be used to report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. Does this apply to permanent endowments of entities that report as special-purpose governments engaged only in business-type activities (a public college or university, for example)?

A—No. Entities that apply the provisions of paragraph .113 of Section Sp20, "Special-Purpose Governments," are not required to report their permanent endowments in a governmental fund. They should report the net position of their permanent endowment funds as nonexpendable restricted net position (segregated by purpose of restriction).

[GASBIG 2015-1, Q7.49.3]

.704-3 Q—A county sheriff's department collects commissions from vendors for pay telephones and other services provided to inmates. The commissions and charges for other services provided are accounted for in a separate fund and, according to state statute, can only be used to provide benefits to the inmates. ~~Expenditures~~Outflows of resources include uniforms, meals, medical care, and construction and maintenance of a law library and video visitation center. Should the fund be classified as a private-purpose trust fund?

A—No. The assets are derived from the government's provision of goods and services to the inmates. In effect, the funds serve to reduce the amount of resources the county would otherwise have to raise to pay for those ~~expenditures~~outflows of resources. If a separate fund is reported, it should be a special ~~revenue~~resources fund.

[GASBIG 2015-1, Q7.52.2, as amended by GASBS 84, ¶11 and GASBS XX, ¶27 and ¶28]

.704-4 Q—How should a government report restricted resources from an activity that benefits *both* the government *and* private parties? For example, a state government has a ~~revenue~~resource sharing agreement through which it receives ~~royalty revenue~~royalties—80 percent of which is restricted to a particular purpose and 20 percent of which is to be held in trust for a third party. Should those resources be reported in two funds—a special ~~revenue~~resources fund and a fiduciary fund?

A—Two separate funds may be used or a special ~~revenue~~resources fund may be used. If a single special ~~revenue~~resources fund is used, the resources held by the government for the "private purpose" should be reported as a liability. The remaining fund balance would be classified as restricted.

[GASBIG 2015-1, Q7.52.5, as amended by GASBS 84, ¶14 and GASBS XX, ¶27 and ¶28]

.704-5 Q—Should a fund be classified as a private-purpose trust fund if its principal or income benefits a discretely presented component unit?

A—No. The financial reporting entity includes its discretely presented component units. Thus, the criteria in paragraph .134c(3) of this section would not be met. The fund in this case may be reported as a special ~~revenue~~resources fund if it meets the criteria in paragraph .105 of this section, or as part of the general fund.

[GASBIG 2015-1, Q7.52.6, as amended by GASBS 84, ¶11 and ¶17 and GASBS XX, ¶28]

.704-6 Q—By exercising its highest level of decision-making authority, a government has established a Budgetary Stabilization Fund and imposed a requirement that 15 percent of certain mineral rights royalties received should be set aside to provide for budgetary imbalances. That decision can only be reversed or modified by the government taking the same action. The conditions under which the resources can be used are sufficiently prescriptive to be reported as committed fund balance. Can the Budgetary Stabilization Fund be reported as a special ~~revenue~~resources fund?

A—Yes. Because the foundation of the separate fund is a specific committed ~~revenue source~~inflow of short-term financial resources from current activities other than transfers, it can be reported as a special ~~revenue~~resources fund, provided that the ~~revenues~~inflows of short-term financial resources are recognized in the separate fund.

[GASBIG 2015-1, QZ.54.26, as amended by GASBS XX, ¶22 and ¶28]

.704-7 Q—Are governments required to use special ~~revenue~~resources funds to report restricted or committed ~~revenue sources~~inflows of short-term financial resources from current activities other than transfers?

A—No. Special ~~revenue~~resources funds are not required, except to report the general fund of a blended component unit.

[GASBIG 2015-1, QZ.54.30, as amended by GASBS XX, ¶22 and ¶28]

.704-8 Q—Can assigned ~~revenues or inflows of short-term financial~~ resources be reported in a special ~~revenue~~resources fund?

A—Yes. However, the fund is required to also include substantial restricted or committed ~~revenues~~inflows of short-term financial resources from current activities other than transfers as its foundation. Assigned ~~revenues or inflows of short-term financial~~ resources cannot be the foundation for establishing a special ~~revenue~~resources fund.

[GASBIG 2015-1, QZ.54.31, as amended by GASBS XX, ¶122 and ¶128]

.704-9 Q—In order to satisfy the criteria for reporting as a special ~~revenue~~resources fund, are restricted or committed ~~revenues~~inflows of short-term financial resources from current activities other than transfers required to constitute a substantial portion of the ~~revenues~~resources in the fund?

A—The requirement is that restricted or committed ~~revenues~~inflows of short-term financial resources from current activities other than transfers should comprise a substantial portion of the *inflows* of the fund. Inflows of the fund would include transfers or assigned ~~revenues~~inflows of short-term financial resources in addition to restricted or committed ~~revenues~~inflows of short-term financial resources.

[GASBIG 2015-1, QZ.54.32, as amended by GASBS XX, ¶122 and ¶128]

.704-10 Q—A government establishes a special ~~revenue~~resources fund to account for a restricted ~~revenue~~inflow of short-term financial resources, but the fund has a limited life expectancy. When inflows into the fund ultimately cease, does the remaining balance in that fund have to be reported as part of the general fund?

A—No. Provided that there are no continuing inflows into the fund (transfers from other funds, for example), the separate fund can continue to be reported until the restricted resources have been used for their specified purposes.

[GASBIG 2015-1, QZ.54.33, as amended by GASBS XX, ¶122 and ¶128]

~~.704-11 Q—If a governing body passes a resolution (the highest level of decisionmaking authority, in this case) to annually transfer amounts from the general fund to a separate fund to be used for a specified purpose, do those amounts qualify as committed revenues so that the separate fund can be reported as a special revenue fund?~~

~~A—No. Transfers are not revenues. The transferred-in resources in this example do not provide the foundation of restricted or committed revenues required for a special revenue fund. The separate fund can, however, be reported as a special revenue fund if there are also substantial restricted or committed revenues recognized in that fund.~~

~~[GASBIG 2015-1, QZ.54.34]~~superseded by GASBS XX, ¶128

.704-~~12~~11 Q—A state government maintains a Lottery Operations enterprise fund to account for the operations of the state lottery, including the payment of prizes and the distribution of the net lottery proceeds to other state funds for spending in accordance with constitutional requirements. The Lottery Operations fund recognizes lottery sales revenue and reports the distributions to other funds as transfers. In the receiving funds, do the transfers-in constitute a restricted ~~revenue~~ source of inflows of short-term financial resources so that they can be reported as special ~~revenue~~ resources funds?

A—No. The restricted revenues are recognized in the Lottery Operations fund; therefore, the amounts transferred to other funds do not constitute “~~revenue~~ transfers inflows of short-term financial resources from current activities other than transfers” in the other funds.

[GASBIG 2015-1, QZ.54.35, as amended by GASBS XX, ¶122 and ¶128]

.704-~~13~~12 Q—In addition to its regular general fund corporate levy, a city government levies several dedicated property taxes that can be used only for the purposes set forth in the individual levies. Tax collections from all levies are received in the general fund. Collections from the dedicated levies are recognized as “due to other funds,” rather than ~~revenue~~ inflows of short-term financial resources in the general fund, and distributed to other funds for ~~expenditure~~ use in accordance with the specific purposes for which they were levied. Do those distributions constitute restricted ~~revenues~~ inflows of short-term financial resources from current activities other than transfers in the receiving funds so that they can be reported as special ~~revenue~~ resources funds?

A—Yes, the taxes represent restricted ~~revenues~~ inflows of short-term financial resources from current activities other than transfers and a receiving fund could be reported as a special ~~revenue~~ resources fund, provided that the taxes and other restricted or committed ~~revenues~~ inflows of short-term financial resources represent a substantial portion of the inflows into the fund.

[GASBIG 2015-1, QZ.54.36, as amended by GASBS XX, ¶122, ¶127, and ¶128]

.704-~~14~~13 Q—Are taxes levied for a specific purpose regarded as restricted for purposes of reporting in a special ~~revenue~~ resources fund?

A—If the taxes result from a separate dedicated levy that can only be used for the specific purpose for which they are levied, they constitute a restricted ~~revenue~~ inflows of short-term financial resources from current activities other than transfers. If, however, the taxes result from the general fund corporate levy and the purpose for which the taxes are intended to be spent is one of the many purposes underlying that levy, they are not restricted to that purpose.

[GASBIG 2015-1, QZ.54.37, as amended by GASBS XX, ¶122 and ¶128]

~~.704-15~~¹⁴ Q—A government uses its highest level of decision-making authority to require that 20 percent of an existing ~~revenue source~~ source of inflows of short-term financial resources can be spent only for smoking cessation programs. The government would be required to take the same action to redeploy those resources to another use. A separate fund is established to account for those resources and their use. The government budgets the entire ~~revenue source~~ source of inflows of short-term financial resources in the general fund and annually appropriates a transfer to the separate fund. Can the government report the separate fund as a special ~~revenue~~ resources fund?

A—The action taken to limit the use of those resources (the initial action establishing the limitation, not the actions taken to appropriate the transfers) qualifies as a commitment of a specific ~~revenue~~ inflow of short-term financial resources from current activities other than transfers for a specific purpose. However, notwithstanding the budgetary treatment, the separate fund can be reported as a special ~~revenue~~ resources fund only if the 20 percent portion is recognized as ~~revenue~~ inflows of short-term financial resources from current activities other than transfers in the separate fund, rather than in the general fund. (See also Questions .704-~~12~~¹¹ and .704-~~13~~¹² of this section.)

[GASBIG 2015-1, QZ.54.38, as amended by GASBS XX, ¶122 and ¶128]

~~.704-16~~¹⁵ Q—Paragraph .105 of this section states that if a fund no longer qualifies as a special ~~revenue~~ resources fund, its remaining resources should be reported in the general fund. Can those resources be reported as part of another special ~~revenue~~ resources fund with a similar purpose (for example, if both funds are transportation-related)?

A—Yes. Resources accounted for in a separate fund that does not meet the criteria to be reported as a special ~~revenue~~ resources fund can be reported as part of the general fund or as part of another fund with a similar purpose that does meet the criteria to be reported as a special ~~revenue~~ resources fund.

[GASBIG 2015-1, QZ.54.39, as amended by GASBS XX, ¶128]

~~.704-17~~¹⁶ Q—The city council passed a resolution (the highest form of decision-making authority, in this case) to accumulate resources over a five-year period to finance statutorily required property revaluations. Each year the council includes an amount to be transferred into a special fund created for that specific purpose. How should the separate fund be reported?

A—The fund does not meet the criteria to be reported as a separate special ~~revenue~~ resources fund because the transferred amounts do not represent restricted or committed ~~revenues~~ inflows of short-term financial resources from current activities other than transfers. In addition, property revaluation does not meet the purpose criteria for reporting as a capital projects fund. Consequently, for

financial statement reporting purposes, the activities of the separate fund would either be presented with the general fund or included within a qualifying special ~~revenue~~resources fund with a similar purpose.

[GASBIG 2015-1, QZ.54.40, as amended by GASBS XX, ¶22 and ¶28]

.704-~~18~~17 Q—A government intends to purchase several movable storage facilities that will not meet its capitalization threshold. Can those acquisitions be made from a capital projects fund?

A—Yes. Capital projects funds may include ~~expenditures~~outflows of short-term financial resources for items that are capital in nature but do not qualify for reporting as capital assets under the government's capitalization policy.

[GASBIG 2015-1, QZ.54.42, as amended by GASBS XX, ¶23]

.704-~~19~~18 Q—A state law allows local school districts to establish a “Capital Reserve Fund” into which amounts of unused appropriations (for other purposes) at year-end and unassigned amounts in the general fund may be transferred. The resources in the fund can only be used for capital improvements, the replacement of and additions to public works, and the acquisition of major equipment items. Can this separate fund be reported as a special ~~revenue~~resources fund? Can it be reported as a capital projects fund?

A—The separate fund does not meet the criteria to be reported as a special ~~revenue~~resources fund because the ~~transfers do not represent restricted or committed revenues and source of the resources are restricted by the state law for capital projects~~is transfers. A separate capital projects fund may be reported, but it is not required.

[GASBIG 2015-1, QZ.54.43, as amended by GASBS XX, ¶28]

.704-~~20~~19 Q—Is a debt service fund required to be used for all debt service activity?

A—No. A debt service fund is required to be used when it is legally mandated or to account for resources that are being accumulated for principal and interest maturing in future years. The accumulation of resources is distinguished from the annual receipt and collection of resources that will be used to make the next principal and interest payments that come due. Setting aside resources in a bond and interest reserve account or establishing a sinking fund are examples of accumulating resources for future years' debt service.

[GASBIG 2015-1, QZ.54.44]

~~.704-21 Q—A separate special revenue fund is used only to account for specific restricted resources. Can nonspendable fund balance be reported for that fund?~~

~~A—Yes. For example, if inventories or prepaid amounts are reported in that fund, the fund balance pertaining to those amounts should be classified as nonspendable.~~

~~[GASBIG 2015-1, QZ.54.45]~~

~~.704-22 superseded by GASBS XX, ¶12~~

.704-20 Q—How should unrealized gains on investments of a permanent fund be classified?

A—Unrealized gains on investments generally should be included in the same fund balance classification as the related investment principal. However, if the permanent fund agreement in this example includes the ability to “spend” *appreciation*, in addition to earnings, the unrealized gain would be classified as restricted for the same purpose as the earnings.

[GASBIG 2015-1, QZ.54.49]

.705 Proprietary Funds

.705-1 Q—Can business-type activities apply Financial Accounting Standards Board standards whose provisions are limited to or primarily address not-for-profit organizations?

A—No. Business-type activities are not considered not-for-profit activities and should not apply guidance for not-for-profit organizations.

[GASBIG 2015-1, Q7.8.8, as amended by GASBIG 2016-1, Q5.12]

.705-2 Q—Are there any specific *activities* that should *always* be reported in an enterprise fund?

A—Only state unemployment compensation funds and public entity risk pools (see paragraph .115 of Section Po20, “Public Entity Risk Pools”) are *required* to be reported in enterprise funds. The criteria in paragraph .109 of this section are not based on the *nature* or *type* of activity, but rather on debt financing, revenue-raising requirements, or objectives of the activity. In subparagraph a, the requirements are based on provisions of debt instruments to provide security for bondholders; in subparagraph b, the requirements to recover costs derive from legal mandates; cost recovery is also the objective of the pricing policies in subparagraph c.

[GASBIG 2015-1, Q7.50.1]

.705-3 Q—Paragraph .109 of this section states that the criteria for enterprise fund reporting should be applied in the context of the *activity's* principal revenue source. Is an “activity” the same as a “fund”?

A—No. The term *activity* as used in paragraph .109 is not synonymous with *fund*. As a result, applying the criteria in paragraphs .109a–.109c could have two consequences—(a) if an activity accounted for as a separate fund meets any of the criteria, that fund should be reported as an enterprise fund, and (a) if a “multiple activity” fund (the general fund, for example) includes a *significant* activity (see the discussion in footnote 43 of this section) whose principal revenue source meets any of the criteria, that activity should be reclassified as an enterprise fund. (See Question .706-5 in Section 2200.)

[GASBIG 2015-1, Q7.50.2]

.705-4 Q—Paragraph ~~.150~~151 of Section 2200 provides specific criteria for identifying major funds. Is there a similar test to ascertain what is a “principal revenue source” for applying the criteria in paragraph .109 of this section?

A—No. Determining whether an activity has a “principal” revenue source is a matter of professional judgment. Paragraph 387 of the Basis for Conclusions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, suggests that, with regard to criterion a, a government should compare its pledged revenue to its total revenues. A similar approach for criteria b and c would compare an activity's fees and charges to its total revenues.

[GASBIG 2015-1, Q7.50.3]

.705-5 Q—Criteria b and c in paragraph .109 of this section require that rates be set to recover costs, including depreciation or debt service. Depreciation applies to all capital assets, but debt service could apply to all, some, or none of an activity's capital assets. If there are limited debt service requirements, is the pricing policy required to include a depreciation factor?

A—No. The requirement to use enterprise fund accounting and reporting principles applies if the pricing policy is designed to recover *either* depreciation *or* debt service requirements (principal and interest). There is no stipulation that debt service requirements should be comparable to depreciation expense.

[GASBIG 2015-1, Q7.50.4]

.705-6 Q—A municipality does not have a formal “pricing policy,” per se, for its water and sewer operation, but it does adopt an annual operating budget in

which fees and charges are established to fully recover all budgeted costs, including an amount to cover depreciation of the water and sewer capital assets. Is enterprise fund accounting required for the water and sewer fund?

A—Yes. The adoption of the operating budget in this scenario produces a rate schedule that meets the intent of paragraph .109c of this section. The formally adopted budget is equivalent to a pricing policy.

[GASBIG 2015-1, Q7.50.5]

.705-7 Q—Are states that report unemployment compensation funds required to follow all of the provisions of Section Po20, including the requirement to make risk-management-type note disclosures for the changes in claims liabilities?

A—No. Footnote ~~65~~ of this section requires that state unemployment compensation funds be reported in enterprise funds. While public entity risk pools also are required to be reported in enterprise funds, footnote ~~65~~ does not require that state unemployment compensation funds follow the provisions for public entity risk pools in Section Po20. Paragraph 391 in the Basis for Conclusions of Statement 34 explains the reasons for requiring governments to use the enterprise fund model for unemployment compensation funds and refers to risk-retention operations as “similar.” However, it is not meant to change the way governments (that are already using enterprise funds) report their unemployment compensation programs.

[GASBIG 2015-1, Q7.50.7]

.705-8 Q—Should administrative costs be reported in a state’s unemployment compensation enterprise fund?

A—No. That activity should be included in the general fund unless legal requirements exist that require the accounting and financial reporting of the resources in another fund, as required by paragraph .101 of Section U50, “Unemployment Compensation Benefit Plans.”

The administrative activity is not required to be accounted for in the unemployment compensation enterprise fund—such a requirement would invalidate the reasoning that an enterprise fund is required, as noted in footnote 6 of this section. The charges are not designed to recover the costs of administration.

[GASBIG 2015-1, Q7.50.8]

.705-9 Q—The definition in paragraph .110 of this section states that an internal service fund should not be used if the reporting government is not the “predominant participant” in the activity. At what point is a government not the predominant participant?

A—Paragraph .110 does not establish an exact point at which the reporting government is or is not the predominant participant. The notion of using an internal service fund only if the reporting government is the predominant participant was initiated in the requirements of Section Po20. Paragraph 126 in the Basis for Conclusions of Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, states that application of the term *predominant* will require preparer and auditor judgment. Usually, the predominance of the government will be clear, but in cases when it is not, preparers and auditors might consider whether the fund’s primary purpose is to serve the government (and the “outside” activity is incidental to that purpose), or whether the fund’s primary purpose is to provide, and charge a fee for, goods or services (and the government is a “customer”).

[GASBIG 2015-1, Q7.50.9]

.705-10 Q—A city operates an electric department, a water and sewer department, and a natural gas department. Each utility operation has issued bonds that are repayable solely from the revenues of the respective operations. Are separate enterprise funds required for each of those departments?

A—No. Paragraph .109a of this section requires only that an enterprise fund be used to report the activities but does not require *separate* funds for each activity. However, each utility operation may be required to be reported separately in the government-wide statement of activities if they satisfy the criteria in paragraph .139b of Section 1800, as different identifiable activities. In addition, disclosure of segment information, as discussed in paragraph

.101 of Section 2500, “Segment Information,” may be required.

[GASBIG 2015-1, Q7.50.10]

.705-11 Q—A county government created a component unit recreation authority to construct recreational facilities. The authority financed the cost of building the facilities by issuing revenue bonds. The county leases the facilities from the authority. The lease payments are equivalent to the debt service requirements of the authority and serve as security for the bonds. The collection of the lease payments from the county and the retirement of the debt are the only activities of the authority. Is the authority required to use enterprise fund accounting and reporting principles in its separate financial statements?

A—Yes. Even though the authority is a component unit of the county, the county is considered to be “external” relative to the authority’s separate financial statements. Therefore, the provisions of paragraph .109 of this section, which stipulate when an enterprise fund may or should be based on fees charged to external users, are applicable. The arrangement meets the criteria in paragraph .109a because the authority’s activity is financed by debt that is secured solely by the lease charges to the county. Furthermore, because the lease payments are structured to be equivalent to the debt service requirements, the criteria in paragraph .109c (that is, the fees and charges are designed to recover all of the authority’s costs) also would indicate that the authority should use the enterprise fund reporting model. (See Question .705-16 in this section about special assessment debt.)

[GASBIG 2015-1, Q7.51.1]

- .705-12 Q—A local government issued revenue bonds for its water and sewer fund. The operating revenues of the fund are pledged as security for the bonds, but in order to enhance the marketability of and perhaps lower the interest rates on the bonds, the city also secondarily backs the bonds with its full faith and credit. The possibility that the city would have to use its general revenues to service the debt is remote. Is the city required to use an enterprise fund for the water and sewer operations, based on paragraph .109a of this section?

A—No. The government *may* use an enterprise fund, but is not *required* to do so. Paragraph .109a requires use of an enterprise fund when the debt is secured *solely* by the operation’s revenues. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity.

[GASBIG 2015-1, Q7.51.2]

- .705-13 Q—The governing board of a local government is concerned about providing low-cost water to its citizens and has a policy to recover 80 percent of the water fund’s costs, including operating expenses, debt service, and indirect costs, through user charges. A transfer from the general fund finances the remaining 20 percent of the costs. Is the government *required* to use an enterprise fund?

A—No. The government *may* use an enterprise fund, but is not *required* to do so. Paragraph .109c states that enterprise fund reporting is required if the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Because the policy is designed to recover *less* than the cost, the enterprise fund reporting requirement does not apply.

[GASBIG 2015-1, Q7.51.3]

- .705-14 Q—The pricing policy for a city’s water and sewer fund is to set rates that recover all operating costs, including depreciation, except for the city’s contribution to the employee retirement system. The city’s contribution to the pension plan is funded by a dedicated tax levy that covers all employees, including the water and sewer fund personnel. The appropriate share of the taxes is reported as a revenue in the water and sewer fund. Is the city required to use an enterprise fund?

A—No. The requirement in paragraph .109c is to recover all costs; therefore, the city *may* use an enterprise fund—and probably would because *depreciation* is a factor in the pricing scheme—but is not *required* to do so.

[GASBIG 2015-1, Q7.51.4]

- .705-15 Q—A government has an activity with a pricing policy that covers its direct costs, including debt service requirements. *Indirect* costs are not included in the fee determination. Do the provisions in paragraphs .109b and .109c of this section, based on recovery of direct costs, also include indirect costs?

A—No. The criteria set forth in paragraphs .109b and .109c are based on laws and policies designed to recover *direct* costs. Therefore, the government should report the activity in this question in an enterprise fund.

[GASBIG 2015-1, Q7.51.5]

- .705-16 Q—Does special assessment debt for which the government is not obligated in any manner invoke the requirement in paragraph .109a of this section to use an enterprise fund because it is secured solely by a pledge of the net revenues from fees and charges of the activity?

A—No. The criterion in paragraph .109a was not intended to cause governments to change the way they account for special assessment projects. There is no “activity” for which external users are “charged a fee for goods or services.” Rather, capital assets are constructed, enhancing the value of certain properties whose owners reimburse the government for the amounts necessary to pay principal and interest on the bonds. Paragraph .107 of Section S40, “Special Assessments,” describes a typical debt-financed special assessment situation, and paragraph .119 of that section establishes the

requirement to use a custodial fund to account for special assessment debt service activity when the government is not obligated in any manner for the debt.

[GASBIG 2015-1, Q7.51.6, as amended by GASBS 84, ¶18]

.706 Fiduciary Funds

See also questions in paragraph .716 of this section.

.706-1 Q—A county sheriff’s department collects commissions from vendors for pay telephones and other services provided to inmates. The commissions and charges for other services provided are accounted for in a separate fund and, according to state statute, can only be used to provide benefits to the inmates. ~~Expenditures~~Outflows of resources include uniforms, meals, medical care, and construction and maintenance of a law library and video visitation center. Should the fund be classified as a private-purpose trust fund?

A—No. The assets are derived from the government’s provision of goods and services to the inmates. In effect, the funds serve to reduce the amount of resources the county would otherwise have to raise to pay for those ~~expenditures~~outflows of resources. If a separate fund is reported, it should be a special ~~revenue~~resources fund.

[GASBIG 2015-1, Q7.52.2, as amended by GASBS 84, ¶11 and GASBS XX, ¶127 and ¶128]

.706-2 Q—A county issues bonds to finance the construction of a building for its discretely presented component unit. The bonds are a liability of the county, but the building will be reported as an asset of the component unit. The county disburses funds to the component unit to pay for construction costs as they are incurred. At year-end, the county has unspent bond proceeds. Should the county account for the unspent proceeds in a custodial fund?

A—No. In substance, the county’s financing of the component unit’s construction is similar to an expenditure-driven grant. The amounts paid to the component unit, and construction costs incurred but not yet reimbursed, represent the amount of the grant for the year. The unearned portion—the unspent proceeds—is an asset of the county.

[GASBIG 2015-1, Q7.52.3, as amended by GASBS 84, ¶18]

.706-3 Q—How should a government report restricted resources from an activity that benefits *both* the government *and* private parties? For example, a state government has a ~~revenue resource~~ royalty revenue royalties sharing agreement through which it receives 80 percent of which is restricted to a particular purpose and 20 percent of which is to be held in trust for a third party. Should those resources be reported in two funds—a special ~~revenue resources~~ fund and a fiduciary fund?

A—Two separate funds may be used or a special ~~revenue resources~~ fund may be used. If a single special ~~revenue resources~~ fund is used, the resources held by the government for the “private purpose” should be reported as a liability. The remaining fund balance would be classified as restricted.

[GASBIG 2015-1, Q7.52.5, as amended by GASBS 84, ¶14 ~~and, as amended by GASBS XX, ¶27 and ¶28~~]

.706-4 Q—Should a fund be classified as a private-purpose trust fund if its principal or income benefits a discretely presented component unit?

A—No. The financial reporting entity includes its discretely presented component units. Thus, the criteria in paragraph .134c(3) of this section would not be met. The fund in this case may be reported as a special ~~revenue resources~~ fund, if it meets the criteria in paragraph .105 of this section, or as part of the general fund.

[GASBIG 2015-1, Q7.52.6, as amended by GASBS 84, ¶11 and ¶17 ~~and GASBS XX, ¶28~~]

.706-5 Q—Should all escheat property be reported in a private-purpose trust fund?

A—No. The financial reporting requirements for escheat property are established in Section E70, “Escheat Property.” It states that escheat property held as a fiduciary activity should be reported in a private-purpose trust fund or a custodial fund, as appropriate (or in the governmental or proprietary fund in which escheat property is otherwise reported, with a corresponding liability) ~~for claims arising from short-term transactions in the governmental fund or corresponding liability in the proprietary fund~~. (See Questions .706-3 and .706-6 in this section.)

[GASBIG 2015-1, Q7.52.7, as amended by GASBS 84, ¶17 and ¶18, ~~and GASBS XX, ¶12 and ¶20~~, and GASBIG 2019-2, Q5.2]

.706-6 Q—What are the allowable methods for reporting escheat property?

A—Escheat property may include amounts that (a) will be paid to heirs or beneficiaries, (b) are temporarily held for other governments, or (c) will revert to the government itself, in the absence of rightful heirs or claimants. A governmental or proprietary fund may be used to account for the entire amount (a, b, and c), with ~~liabilities for associated liabilities~~. In a governmental fund, the associated liabilities are for the amounts arising from short-term transactions that will be paid to claimants or other governments. In a proprietary fund, the associated liabilities are the amounts that will be paid to claimants or other governments.

Alternatively, a governmental or proprietary fund may be used to account for only the amount that is expected to revert to the government, with the amounts held for claimants and amounts held for other governments accounted for in one or more fiduciary funds, as appropriate.

[GASBIG 2015-1, Q7.52.8, as amended by GASBS 84, ¶14 and GASBS XX, ¶12 and ¶20]

.707 Bases for Fund Establishment

No questions assigned.

.708 Number of General Funds

No questions assigned.

.709 Number of Other Funds

No questions assigned.

.710 Other Matters

No questions assigned.

.711 Separate Fund Records Required

No questions assigned.

.712 Interfund Receivables and Payables

.712-1 Q—A governmental fund incurs a liability to the general fund with no specific repayment arrangement. Should the interfund payable be reported as a fund liability of that governmental fund ~~under the modified~~ presented applying the short-term financial resources measurement focus and accrual basis of accounting?

A—The government should either report the amount as a fund liability in accordance with paragraph .122 of this section or reclassify it as a transfer, as discussed in paragraph .102a(1) of Section 1800. Paragraph .122 of this section states that liabilities arising from interfund activities do not constitute general long-term liabilities and therefore should be reported in governmental funds. Paragraph .102a(1) of Section 1800 provides that, if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer. (See Question .702-8 in Section 1800 about the meaning of *reasonable time*.)

[GASBIG 2015-1, Q7.59.2, as amended by GASBS XX, ¶12]

.712-2 Q—Are governments required to report interfund loan balances in two categories—“due to/from other funds” for the short-term amounts and “advances to/from other funds” for the amounts that will be repaid over several years?

A—No. Although governments may classify interfund balances as such, they are not required to do so. Paragraph .102 of Section 1800 only requires “interfund receivables” and “interfund payables” to be reported. Governments are required, however, to report nonspendable fund balance for the noncurrent portion of interfund receivables to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. (See Question .702-~~18~~ in Section 1800 about reclassifying interfund loan balances.)

[GASBIG 2015-1, Q7.62.2]

.713 Classifications of Funds

No questions assigned.

.714 Period versus Project Orientation of Funds

No questions assigned.

.715 Disclosure of Fund Activities

No questions assigned.

.716 Identification of Fiduciary Activities

.716-1 Q—Should a pension or OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes?

A—Yes. For purposes of applying the criteria in paragraph .114 of Section 2100, paragraph .130 of this section states that such plans should be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes.

[GASBIG 2019-2, Q4.1]

.716-2 Q—Is the answer in Question .716-1 the same regardless of whether the pension or OPEB plan is a defined benefit plan or a defined contribution plan?

A—Yes. Regardless of whether the pension or OPEB plan is a defined benefit plan or a defined contribution plan, if the pension or OPEB plan is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, the plan should be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes.

[GASBIG 2019-2, Q4.2]

.716-3 Q—Should pension or OPEB plans that are administered through equivalent arrangements that meet the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes?

A—A pension or OPEB plan that is administered through an equivalent arrangement that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, may or may not be legally separate. Determining whether those plans are legally separate from the employers, nonemployer contributing entities, and the plan administrator is a legal issue.

[GASBIG 2019-2, Q4.3, as amended by GASBS 97, ¶5].

716-4 Q—A local government provides defined benefit pensions to its employees through a pension plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5. The plan is governed by a

five-member board. The local government appointed the initial plan member representatives, whose terms expired sequentially over the first five years, to the pension plan board. Successor pension plan board members were elected by the retired and active plan members. The pension plan board is the trustee for the assets in the plan and approves all decisions related to the investment of the assets in the plan. The local government cannot unilaterally abolish the plan. The local government has determined that the fiscal dependency criteria in paragraph .115 of Section 2100 are not met. Therefore, the characteristics of financial accountability in paragraph .120b of Section 2100 are not present. Is the local government financially accountable for the plan under the requirements in paragraph .120a of Section 2100?

A—No. The plan does not meet the criteria for financial accountability in paragraph .120a of Section 2100 because it does not appoint a voting majority of the organization's governing body, as discussed in paragraphs .121–.123 of Section 2100. Specifically, the local government appointed the initial pension plan board with no continuing appointment authority, and the local government does not have the unilateral ability to abolish the pension plan.

[GASBIG 2019-2, Q4.4]

.716-5 Q—A defined benefit pension plan or defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, does not have a governing board. Instead, another government (for example, a sponsoring government) performs the duties that a governing board typically would perform (for example, the government determines or amends the structure of the plan [vesting requirements and required contributions]). If that other government (for example, a sponsoring government) is legally obligated to make contributions to the defined benefit pension plan or defined benefit OPEB plan, should the plan be included as a fiduciary component unit of that other government?

A—Yes. In accordance with paragraph .120a of Section 2100, a government is financially accountable for a legally separate organization if it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the government. For purposes of that paragraph to defined benefit pension plan or defined benefit OPEB plans, a government (for example, a sponsoring government) that performs the duties of a governing board in the absence of one should be considered treated the same as a government that appoints a voting majority of a governing board. Furthermore, in accordance with paragraph .130 of this section, a government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to

the defined benefit pension plan or defined benefit OPEB plan. As a result, the plan should be included as a fiduciary component unit of the other government (for example, a sponsoring government).

[GASBIG 2019-2, Q4.5, as amended by GASBS 97, ¶4 and ¶5]

.716-6 Q—Pursuant to enabling state legislation, a city established a defined benefit pension plan through which the city provides pensions to its employees. The pension plan is administered through a trust that meets the criteria in paragraph .101 of Section Pe5. Five of the seven members of the pension plan board are appointed by the city council, and two members are elected by the plan members. A provision in the enabling legislation imposes an obligation on the city to make contributions to the plan. The city has determined that it is not able to impose its will on the plan. Because the trust meets the criteria in paragraph .101 of Section Pe5, the city cannot access the resources of the plan. Furthermore, the city is not obligated in any manner for the debt of the plan. Should the plan be included as a component unit of the city?

A—Yes. Paragraph .130 of this section provides that a legal obligation or the assumption of an obligation to make contributions to a defined benefit pension plan constitutes a financial burden. The statutory obligation for the city to contribute to the plan meets the criterion in paragraph .127b of Section 2100.

[GASBIG 2019-2, Q4.7, as amended by GASBS 97, ¶5]

.716-7 Q—In the scenario in Question ~~6.43.1 in Implementation Guide 2015-1, as amended by Question 5.725-3 in this Implementation Guide~~ Section 150, how should the state report the internal portion of the investment pool (its own resources)?

A—The internal portion of the investment pool's balances should be reported as assets or liabilities in the state's governmental fund short-term financial resources balance sheet or proprietary fund statement of net position, as applicable, as well as in its government-wide statement of net position. Similarly, resource flows related to those balances should be reported as inflows of resources and outflows of resources in the state's governmental or proprietary fund resource flows statements, as applicable, as well as in its government-wide statement of activities.

[IG2020-1, Q4.3, as amended by GASBS XX, ¶111]

.716-8Q—A government has determined that an external investment pool meets the criteria to be a component unit. Does the government need to consider whether it controls the assets of the external investment pool in determining whether to report the component unit in its fiduciary fund financial statements?

A—No. Because of the financial accountability guidance established in Section 2100 for identifying a component unit, the primary government should not consider whether it controls assets of the external investment pool, as set forth in paragraph .132 of this section.

[GASBIG 2019-2, Q4.8]

.716-9 Q—A group of governments formed a multiple-employer defined benefit retiree healthcare plan. The assets are held by one of the governments, and the plan is not administered through a trust that meets the criteria in paragraph .101 of Section Po50. The arrangement is not a component unit of any of the governments. Is there a fiduciary activity to be reported by any of the participating governments?

A—Yes. As discussed in paragraph .133d of this section, the government that controls the assets held for other governments that are not part of the reporting entity would report that arrangement as a fiduciary activity. However, in accordance with paragraph .108 of Section P53 and Question .703-2 in that section, amounts that pertain to the government that is holding the accumulated assets should be excluded from the fiduciary activity and should be reported by that government in its governmental or proprietary fund financial statements.

[GASBIG 2019-2, Q4.9]

.716-10 Q—A city is the custodian for the cash collected from fees charged by the local cemetery association for future maintenance of the cemetery. The association is a not-for-profit association and is not a component unit of

the city. The activity is administered through a cemetery care trust in which the assets are (a) dedicated to providing cemetery plot maintenance to individuals who have paid the fees for such maintenance, in accordance with the benefit terms, and (b) legally protected from the creditors of the government. The board of the not-for-profit association establishes how the resources can be spent. Should the city report the cemetery care trust as a fiduciary activity?

A—Yes. The activity should be reported as a fiduciary activity because the city, as custodian, is holding and therefore controlling the assets (which meets the criterion in paragraph .134a of this section). Furthermore, the assets

are not derived from the city's own-source revenues or from government-mandated nonexchange transactions or voluntary nonexchange transactions (which meets the criterion in paragraph .134b of this section) and are held in a trust that meets the criteria in paragraph .134c(1) of this section. (See also Questions .756757-6 and .756757-7 in Section 2200.)

[GASBIG 2019-2, Q4.10]

- .716-11 Q—A city hires a contractor to construct a new city building. The contractor provides the city with a cash deposit to be held by the city as an assurance that the project will be completed on schedule and in accordance with the plans and specifications. If the contractor does not complete the project satisfactorily, the deposit will be forfeited to the city. If the contractor does complete the project satisfactorily, the city will refund the deposit. Should the city report the contractor deposit in a fiduciary fund?

A—No. Although the control criteria in paragraph .135 of this section are met because the city is holding the cash, the deposit is the result of an exchange transaction between the contractor and the city. The city is holding the cash for its own benefit and the criteria in paragraph .134c of this section are not met. Therefore, the cash deposit and a related liability would be reported in the city's governmental or enterprise fund financial statements.

[GASBIG 2019-2, Q4.11]

- .716-12 Q—Would the activity described in Question .716-119 be reported in a fiduciary fund if the contractor provided the city with a performance bond instead of a cash deposit?

A—No. The performance bond would not be recognized as a fiduciary activity for the same reasons provided in Question .716-119. The performance bond is a contingent asset based on paragraph .167 of Section C50, "Claims and Judgments," and, as such, would not be recognized in the financial statements of the city.

[GASBIG 2019-2, Q4.12]

- .716-13 Q—As a condition in a construction contract between a school district and a private contractor, the school district retains 10 percent of the amounts billed by the contractor until construction is complete, the facility is code compliant, and all requirements in the contract have been satisfactorily met. Should the school district report the retained amounts in a fiduciary fund?

A—No. Although the control criteria in paragraph .135 of this section are met because the school district is holding the cash, the school district is

holding the cash for its own benefit; as a result, the criteria in paragraph .134c of this section are not met. The unremitted retainage is a liability arising from an exchange transaction between the school district and the contractor.

[GASBIG 2019-2, Q4.13]

.716-14 Q—A county government operates a jail. Some inmates have jobs in the jail, and their earnings are deposited into an account established for each inmate. Families of inmates also can deposit resources into the inmates' individual accounts. The county is the custodian of the individual accounts. Inmates use the resources in their individual accounts to make purchases at the commissary. Neither the county government nor any jail official has the authority to determine how the inmate will use the funds in their individual account. When an inmate is released, any remaining balance in their individual account is paid to them. Should the county report the inmate accounts in its fiduciary fund financial statements?

A—Yes. The county is holding the inmate accounts, so the control criteria in paragraph .135 of this section are met. The assets are not derived from the county's own-source revenues or from a government-mandated nonexchange transaction or voluntary nonexchange transaction. Moreover, the assets are for the benefit of individuals (the inmates), and the county does not have administrative involvement or direct financial involvement with the assets because the inmates have discretion on how the assets are spent. Finally, although the assets may be used to generate commissary revenue for the county, the assets themselves are not derived from the government's provision of goods or services to the inmates. (See also Question .716-~~24~~22.)

[GASBIG 2019-2, Q4.14]

.716-15 Q—A government uses a clearing account to accumulate resources from withholding of employee payroll deductions and accrued employer payroll taxes that will be submitted to the appropriate taxing bodies when due. Should the government report the clearing account in its fiduciary fund financial statements?

A—No. Although the government has control of the assets because it has custody of the cash withheld, the unremitted amounts in the clearing account are a liability of the government. When the deductions are withheld from an employee's pay, the amounts withheld and accrued by the employer become a present obligation to sacrifice resources that the government has no discretion to avoid and, therefore, are liabilities of the government.

As a result, the government is holding the amounts for its own benefit and the criteria in paragraph .134c of this section are not met.

[GASBIG 2019-2, Q4.15]

.716-16 Q—A chess club of a public high school is established in accordance with the school's operating policies and is not legally separate from the high school. The club members organize and conduct fundraising activities to pay for the club's annual tournament and other club activities during the school year. The proceeds from the fundraising activities are held in a separate bank account in the school's name. In determining whether those resources controlled by the school are fiduciary, are the assets held for the benefit of individuals as addressed in paragraph .134c(2) of this section (and thus require evaluation of whether the school has administrative involvement or direct financial involvement), or do they benefit an organization as addressed in paragraph .134c(3) of this section (and thus require evaluation of whether the club is part of the primary government)?

A—Assets are for the benefit of an organization if the benefits accrue to the organization as an institution, rather than to the individuals that constitute the organization. However, in that scenario, because the club is not legally separate from the primary government, it is not itself an institution. As a result, the provisions in paragraph .134c(2) of this section should be applied and thus require evaluation of whether the school has administrative involvement or direct financial involvement. (See also Question .716-28.)

[GASBIG 2019-2, Q4.16]

.716-17 Q—A school board is responsible for establishing the fees charged by student clubs to their members. The clubs are not legally separate from the school district. Assuming that the school board has no other policies in place related to the disbursement of funds for various student clubs, does the school district have administrative involvement, as discussed in paragraph .134c(2) of this section?

A—Yes. Footnote 11 of this section provides examples to consider in determining whether a government has administrative involvement. The establishment of fees related to the generation of funds is analogous from a revenue standpoint to the example provided regarding determining eligible ~~expenditures~~ outflows of resources. In other words, establishing specific guidelines on how the resources can be spent is analogous to establishing guidelines on the amount at which fees are set. In that scenario, the school board is establishing the amount at which fees are set, and, therefore, the school district does have administrative involvement and the criterion in paragraph .134c(2) of this section is *not* met.

[GASBIG 2019-2, Q4.17, as amended by GASBS XX, ¶127]

.716-18 Q—A student club is established in accordance with the school district’s operating policies. The club is not legally separate from the school district. The students of the club conduct fundraising events, the proceeds of which are deposited into a savings account held by the school district. The student club president, with the members of the club, establishes how the resources can be spent and approves disbursements from the account. Does the school district have administrative involvement, as discussed in paragraph .134c(2) of this section?

A—No. Footnote 11 of this section provides examples to consider when determining whether a government has administrative involvement. In assessing whether a government has administrative involvement, a “substance versus form” consideration is appropriate. For example, the government’s role would have substance if the school board, school administrator, or faculty advisor (who is representing the school district) establishes how the resources can be spent through approved policies. In that scenario, the students (the beneficiaries) are establishing how the resources can be spent, and, therefore, the school district does *not* have administrative involvement and the criterion in paragraph .134c(2) of this section is met.

[GASBIG 2019-2, Q4.18]

.716-19 Q—Assume the same facts as in Question .716-18, except that the parents of the club members establish how the resources can be spent. In that scenario, does the school district have administrative involvement, as discussed in paragraph .134c(2) of this section?

A—No. The school district does *not* have administrative involvement. The parents of the students (representatives of the beneficiaries) and not the school board, school administrator, or faculty advisor are establishing how the resources can be spent.

[GASBIG 2019-2, Q4.19]

.716-20 Q—A school district holds the funds raised by various student clubs, which are not legally separate from the school district. The funds are used to pay for various club activities during the year. There is no school board or school administration policy related to how the resources of the club can be spent. The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each

club. Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor. Does the school district have administrative involvement, as discussed in paragraph .134c(2) of this section?

A—Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school district representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor's approval is more than just a formality and is analogous to the example provided in footnote 11 of this section regarding the determination of eligible ~~expenditures~~ outflows of resources that are established by the government.

[GASBIG 2019-2, Q4.20, as amended by GASBS XX, ¶27]

.716-21 Q—A school board establishes and approves a policy related to the disbursement of funds for various student clubs that are not legally separate from the school district. The policy includes specific guidelines related to how the funds raised by the clubs can be spent. Does the school district have administrative involvement, as discussed in paragraph .134c(2) of this section?

A—Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because the school has established specific guidelines on how the resources can be spent in an approved policy.

[GASBIG 2019-2, Q4.21]

.716-22 Q—Assume the same facts as in Question .716-21, except that the policy that applies to all clubs only addresses issues such as the authorized account signers and the prohibition of spending for illegal activities. Does the school district have administrative involvement, as discussed in paragraph .134c(2) of this section?

A—No. The school district does *not* have administrative involvement. The school district's role is *not* considered to be substantive because the school has not established specific guidelines regarding how the resources of the clubs can be spent.

[GASBIG 2019-2, Q4.22]

.716-23 Q—Assume the same facts as in Question .716-21, except that the state establishes specific guidelines on how the resources can be spent through

administrative policy. Does the school district have administrative involvement, as discussed in paragraph .134c(2) of this section?

A—Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because the school district is required to follow the specific guidelines established by the state, through legislation or policy, regarding how the resources can be spent.

[GASBIG 2019-2, Q4.23]

.716-24 Q—A county government operates a jail. Some inmates have jobs in the jail, and their earnings are deposited into an account established for each inmate. Families of inmates also can deposit resources into the inmates' individual accounts. Inmates sometimes use the resources in their accounts to order stationery or magazines from outside of the facility, to the extent that there are adequate funds in their individual accounts. A jail corrections officer is required to provide a signature authorizing an inmate's expense when ordering items outside of the correction facility. The signature is required to help ensure that contraband does not enter the facility. For purposes of applying paragraph .134c(2) of this section, does the county have administrative involvement with the individual accounts?

A—No. Ensuring that illegal items are not purchased by the inmates does not constitute administrative involvement. Keeping contraband out of the facility is a general goal of the county, thus, ensuring compliance with contraband laws is not specific to this activity. (See also Question .716-14.)

[GASBIG 2019-2, Q4.24]

.716-25 Q—A public university receives funds, which it controls, from an alumnus to provide a scholarship program for incoming freshman students who are majoring in a business-related field and have demonstrated financial need. The scholarship recipients are required to maintain a minimum 3.5 grade point average each semester to receive the scholarship funds. The university is responsible for selecting the scholarship recipients and monitoring the recipients' compliance each semester. Does the university have administrative involvement with the scholarship program, as discussed in paragraph .134c(2) of this section?

A—Yes. In that scenario, because the university is determining the eligible scholarship recipients and monitoring those recipients for compliance with the scholarship requirements, its responsibilities are considered to be administrative involvement.

[GASBIG 2019-2, Q4.25]

.716-26 [IG2020-1, Q4.4]

.716-27 Q—A school district traditionally matches all student clubs' funds when a disbursement is approved. In that scenario, does the school district have direct financial involvement, as discussed in paragraph .134c(2) of this section?

A—Yes. The matching of funds provided by the school is a manifestation of direct financial involvement.

[GASBIG 2019-2, Q4.26]

.716-28 [IG2020-1, Q4.5]

.716-29 Q—A public university holds funds received from a foundation that is a legally separate 501(c)(3) organization. The foundation is not a component unit of the university. The funds are for the sole purpose of granting science and engineering scholarships. The resources are contributed by foundation members to the foundation and are deposited with the university by the foundation and may be withdrawn by the foundation at any time. Students submit applications to the foundation. The foundation's executive director, who is not a university employee, selects recipients based on the criteria established by the foundation and the recipients are not required to attend the university that holds the foundation's resources. The recipients' compliance with the scholarship criteria is monitored by the foundation. If a scholarship is awarded to a student of the university, the university applies the scholarship amount to that recipient's student account. In determining whether those resources controlled by the university are fiduciary, are the requirements in paragraph .134c(3) of this section met?

A—Yes. The university is holding the resources for the foundation and not the individual student scholarship recipients. The foundation is a legally separate entity that is not a component unit, so it is not part of the university's reporting entity. Finally, the resources held are not derived from the university's provision of goods or services to the foundation. As a result, the requirements in paragraph .134c(3) of this section are met.

[GASBIG 2019-2, Q4.27]

.716-30 Q—A public high school's student club raised funds that are restricted for a not-for-profit organization's (NFP) hurricane relief efforts and requested that the high school hold those resources during the fundraising campaign. The NFP is a legally separate organization and is not a component unit. The proceeds from the fundraising activities are not own-source revenues and are held by the high school in a separate bank account that is restricted to the disbursement of those resources to the NFP. In determining whether those resources controlled by the school are fiduciary, are the assets held for the benefit of individuals as addressed in paragraph .134c(2) of this section and thus require evaluation of whether the school has administrative involvement

or direct financial involvement, or do they benefit an organization as addressed in paragraph .134c(3) of this section and thus require evaluation of whether the NFP is part of the primary government?

A—The provisions in paragraph .134c(3) of this section should be applied. Assets are for the benefit of an organization if the benefits accrue to an organization that is legally separate from the primary government. In this example, the NFP is a legally separate organization that is not part of the school's primary government. (See also Question .716-16.)

[GASBIG 2019-2, Q4.28]

.716-31 Q—A county government has custody of resources pursuant to a nontrust agreement with an NFP to provide the NFP with accounting and treasury services, including investment of resources at the direction of the NFP. The NFP is legally separate from the county and it does not meet the criteria in Section 2100 for inclusion as a component unit of the county. Should the accounting and treasury activity of the NFP be included in the county's fiduciary fund financial statements?

A—Yes. Because the county has custody of the NFP resources, the control criterion in paragraph .135 of this section is met. Furthermore, the resources meet the remaining requirements in paragraph .134 of this section by being (a) *not* derived from the county's own-source revenues or from government mandated or voluntary nonexchange transactions and (b) for the benefit of the NFP, which is *not* part of the county's reporting entity and *not* derived from the county's provision of services to the NFP. (See also Question .716-30.)

[GASBIG 2019-2, Q4.29]

.716-32 Q—In Question .716-29, the county "provide[s] the NFP with accounting and treasury services," but the resources held by the county are considered to be "*not* derived from the county's provision of services." How does the county determine whether the resources are derived from its provision of services for the purpose of applying the criterion in paragraph .134c(3) of this section?

A—Resources would be derived from the provision of goods or services if they are received in exchange for the accounting and treasury services (or any other services) provided by the county to the NFP. In this case, the service being provided by the county is associated with the holding of the resources in a fiduciary capacity. Therefore, the resources held in custody for the NFP are not derived from the provision of goods or services. However, any fees earned and held by the county, which do derive from the provision

of accounting and treasury services to the NFP, should *not* be reported in the fiduciary fund financial statements of the county.

[GASBIG 2019-2, Q4.30]

.716-33 Q—A state sponsors a college tuition savings plan. The state is not the trustee of the plan. The plan has its own board. The plan does not meet the requirements in Section 2100 to be a component unit of the state. The board hires a third party to administer the savings plan. The assets are held by the third party and are not in a state investment account. Participants in the plan open an investment account with the third party to save for the future qualified higher education expenses of a beneficiary. Withdrawals can be used at any college or university. The participant may choose among a list of investment portfolios that are selected by the board. The state does not guarantee any of the investments or benefits associated with the college tuition savings plan. In that scenario, is the state controlling the assets of the college tuition savings plan, as described in paragraph .135 of this section?

A—No. In that scenario, the state is not controlling the assets of the college tuition savings plan. The third party, not the state, is holding the assets. Furthermore, the participants in the plan are responsible for the use, exchange, or employment of the assets. As a result, the control criterion in paragraph .135 of this section is *not* met.

[GASBIG 2019-2, Q4.31]

.716-34 Q—The Touchdown Club is a legally separate 501(c)(3) association that has its own board comprised of parents of high school football players and other program supporters. The club is not a component unit of the school district. The funds raised by the club are not held in an account of the school district. Spending of the funds is at the sole discretion of the club's board. In that scenario, is the school district controlling the assets of the club, as described in paragraph .135 of this section, and if not, should the school district still report the club's activities?

A—No. The control criteria in paragraph .135 of this section are not met because the school district is not holding the funds, nor do they have the ability to direct the use, exchange, or employment of the funds. Because the school district does not have control of the assets and the club is not a component unit, the club's activities would not be reported in the financial statements of the school district.

[GASBIG 2019-2, Q4.32]

.716-35 Q—A state sponsors an Achieving a Better Life Experience (ABLE) savings plan under Internal Revenue Code (IRC) Section 529a (the ABLE plan). The ABLE plan allows eligible individuals with disabilities to save for medical and other qualified disability-related expenses. The assets of the ABLE plan are invested in a master trust (a legally separate trust) that has its own board and is managed by an investment manager. An independent trust company is the trustee. The trust is not a component unit of the state. Individuals from other states may invest in the master trust as well. The underlying investments are aggregated into portfolio options, which are offered to ABLE plan participants (the individual account owners), that may consist of one or more mutual funds or bank products. The state is a member of the trust and may participate in discussions regarding the underlying investments that comprise the portfolio options offered by the trust, but the state does not exercise any control over the trust. Participants in the ABLE plan may make contributions to and withdrawals from the plan, subject to the provisions of the ABLE plan agreement. The ABLE plan participants may direct that their contributions be invested in one or more portfolio options offered through the master trust, for which the participant receives units of participation in the portfolio option. The ABLE plan participants do not have any control over the underlying investments that comprise the portfolio options. Recordkeeping and reporting to the ABLE plan participants are the responsibility of the third-party administrator. In that scenario, is the state controlling the assets of the ABLE plan, as described in paragraph .135 of this section?

A—No. In that scenario, the state does not control the assets. The master trust, not the state, is holding the assets. Furthermore, the participants in the ABLE plan are responsible for the use, exchange, or employment of the assets. Participating in the selection of investment options would not, by itself, result in the determination that the state controls the assets. As a result, the control criterion in paragraph .135 of this section is *not* met.

[GASBIG 2019-2, Q4.33]

.716-36 Q—Assume the same facts as in Question .716-33, except that the state does not participate in the master trust described in that question. Instead, assets are held in a state ABLE trust fund established in accordance with an ABLE Act implemented by that state. Per the trust agreement, the assets are dedicated to providing benefits to eligible disabled recipients in accordance with the benefit terms, and the assets are legally protected from the creditors of the state. The state's comptroller serves as the trustee of the trust. The underlying investments are held in a custody account in the name and tax identification number of the state. However, recordkeeping, investment management, and plan administration are outsourced to a third-party administrator. In that scenario, is the state controlling the assets of the ABLE plan, as described in paragraph .135 of this section?

A—Yes. In that scenario, the state is controlling the assets. Acting as the trustee, the state is holding the assets.

[GASBIG 2019-2, Q4.34]

.716-37 Q—A county government imposes an annual license fee of \$1,500 pursuant to the county’s business licensing function. The county government enters into a revenue-sharing agreement with the state that results in the county retaining \$1,350 from each license fee and remitting the remaining amount to the state. The fees to be remitted to the state are maintained in a separate county bank account. Should the state portion of the fees collected be considered own-source revenues of the county, as described in paragraph .136 of this section?

A—Yes. The nature of that transaction is exchange or exchange-like resulting in the fees collected being the county’s own-source revenue, as discussed in paragraph .136 of this section.

[GASBIG 2019-2, Q4.35]

.716-38 Q—A university charges each enrolled student an activity fee to fund student programs and activities. The university management evaluates the student proposals for disbursement of the fees and authorizes the disbursement. The university bills the activity fee with the student’s tuition each year and deposits the fees received into its central bank account. Should the student activity fees collected be considered own-source revenues of the university, as described in paragraph .136 of this section?

A—Yes. The university is obligated to provide a product or service for which a fee is charged. The student activity fees collected, therefore, are own-source revenues of the university.

[GASBIG 2019-2, Q4.36]

.716-39 Q—A state maintains an IRC Section 529 prepaid college tuition plan. Participants in the plan purchase tuition credits at their present price even though they will not be used until a future year when the cost of those credits likely will be higher. The state invests the proceeds from the sale of those credits to help provide for the difference between the present and future value of the credits. Should the purchased tuition credits be considered own-source revenues of the state, as described in paragraph .136 of this section?

A—Yes. In a prepaid tuition plan, the state is obligated to provide a product or service for which a fee is charged to external parties. That transaction, therefore, is an own-source revenue of the state.

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[GASBIG 2019-2, Q4.37]

.716-40 Q—A county collects property taxes on behalf of the other tax-levying governments within its jurisdiction. The county collects a fee, equal to 1 percent of the amount billed, from the other governments to provide this service. The taxes are deposited into the county collector's property tax distribution account, a custodial fund. Should the county report the fees in the custodial fund with the taxes collected?

A—No. The county is obligated to provide the collection service for which a fee is charged to the other taxing governments. The nature of that transaction is exchange or exchange-like, resulting in own-source revenues of the county. Paragraph .134b(1) of this section states that an activity is not fiduciary if the assets are derived from the government's own-source revenues. Therefore, the county should report the fees in its governmental fund financial statements.

[GASBIG 2019-2, Q4.38]

REPORTING CAPITAL ASSETS

SECTION 1400

Sources: NCGAS 1, GASBS 6, GASBS 34, GASBS 42, GASBS 51,
GASBS 62, GASBS 72, GASBS 89, GASBS 94, GASBS 96,
GASBS XX, GASBIG 2015-1, GASBIG 2016-1, GASBIG 2019-1,
AICPA GG 2011

See also: Section 2300, "Notes to Financial Statements"
Section C65, "Conduit Debt Obligations"
Section L10, "Landfill Closure and Postclosure Care Costs"
Section L20, "Leases"
Section P40, "Pollution Remediation Obligations"
P90, "Public-Private and Public-Public
Partnerships"
Section S40, "Special Assessments"
Section S80, "Subscription-Based Information Technology Arrangements"
Section Bn5, "Bankruptcies"

Statements of Principle Reporting Capital Assets

A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds (including fiduciary component units) should be reported only in the statement of fiduciary net position. All other capital assets of the governmental unit are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position. [NCGAS 1, ¶32, as amended by GASBS 34, ¶6 and ¶69, GASBS 63, ¶8, and GASBS 84, ¶5; GASBS 34, ¶30, ¶80, ¶92, and ¶108, as amended by GASBS 63, ¶8]

Valuation of Capital Assets

Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Donated capital assets should be reported at their acquisition value¹ plus ancillary charges, if any. [GASBS 34, ¶18, as amended by GASBS 72, ¶79 and GASBS 89, ¶4]

¹Acquisition 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. [GASBS 72, ¶79 and ¶

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Depreciation² and Impairment of Capital Assets

Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives, or are infrastructure assets using the modified approach as set forth in this section. Inexhaustible capital assets such as land and land improvements should not be depreciated. Unless otherwise required, depreciation should be reported in the government-wide statement of activities; the proprietary fund statement of revenues, expenses, and changes in fund net position; and the statement of changes in fiduciary net position. Capital assets should be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined as set forth in this section. [GASBS 34, ¶121; GASBS 34, ¶122 and ¶107, as amended by GASBS 81, ¶127; GASBS 34, ¶92, as amended by GASBS 63, ¶8 and GASBS 81, ¶127; GASBS 42, ¶9; GASBS 51, ¶17]

Reporting Capital Assets—General Requirements

.101 Section 2200, “Comprehensive Annual Financial Report,” paragraph .102, requires general purpose and special-purpose governments engaged in governmental activities to provide basic financial statements that include government-wide and fund financial statements. A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds (including fiduciary component units) should be reported only in the statement of fiduciary net position. All other capital assets of the governmental unit are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position. [NCGAS 1, ¶32, as amended by GASBS 34, ¶6 and ¶69, GASBS 63, ¶8, and GASBS 84, ¶5; GASBS 34, ¶30, ¶80, ¶92, and ¶108, as amended by GASBS 63, ¶8]

Reporting Capital Assets

.102 Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs,

²As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

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and professional fees. Interest cost incurred before the end of a construction period should not be capitalized as part of the asset's historical cost. Donated capital assets should be reported at their acquisition value plus ancillary charges, if any. [GASBS 34, ¶18, as amended by GASBS 72, ¶79 and GASBS 89, ¶4; GASBS 72, ¶68; GASBS 89, ¶4]

.103 As used in this section, the term *capital assets* includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations³ and that have initial useful lives extending beyond a single reporting period.⁴ *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of this section. [GASBS 34, ¶19]

.104 Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives as described in paragraph .136, or are infrastructure assets reported using the modified approach in paragraphs .105–.107. Inexhaustible capital assets such as land and land improvements should not be depreciated. Capital assets should be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined, as set forth in paragraphs .165–.181. [GASBS 34, ¶21; GASBS 42, ¶9; GASBS 51, ¶17]

Modified Approach

.105 Infrastructure assets that are part of a network or subsystem of a network⁵ (hereafter, eligible infrastructure assets) are not required to be depreciated as long as two requirements are met. First, the government manages the eligible infrastructure assets using an asset management system that has the characteristics set forth below; second, the government documents that the eligible infrastructure assets are being

³Intangible assets that are subject to the provisions of paragraphs .124–.137 of this section (see paragraphs .122 and .123) should be classified as capital assets. [GASBS 51, ¶5]

⁴Capital assets that have been or will be used in operations are also comprehended in this definition. [GASBS 42, fn1]

⁵If a government chooses not to depreciate a subsystem of infrastructure assets based on the provisions of this paragraph, the characteristics of the asset management system required by this paragraph and the documentary evidence required by paragraph .106 should be for that *subsystem* of infrastructure assets. [GASBS 34, fn16]

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preserved approximately at (or above) a condition level established and disclosed by the government.⁶ To meet the first requirement, the asset management system should:

- a. Have an up-to-date inventory of eligible infrastructure assets
- b. Perform condition assessments⁷ of the eligible infrastructure assets and summarize the results using a measurement scale
- c. Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

[GASBS 34, ¶23]

.106 Determining what constitutes adequate documentary evidence to meet the second requirement in paragraph .105 for using the modified approach requires professional judgment because of variations among governments' asset management systems and condition assessment methods. These factors also may vary within governments for different eligible infrastructure assets. However, governments should document that:

- a. Complete condition assessments of eligible infrastructure assets are performed in a consistent manner at least every three years.⁸
- b. The results of the three most recent complete condition assessments provide reasonable assurance that the eligible infrastructure assets are being preserved approximately at (or above) the condition level⁹ established and disclosed by the government.

[GASBS 34, ¶24]

.107 If eligible infrastructure assets meet the requirements of paragraphs .105 and .106 and are not depreciated, all ~~expenditures made~~costs incurred for those assets (except for additions and improvements) should be expensed in the period incurred. Additions and improvements to eligible infrastructure assets should be capitalized. Additions or

⁶The condition level should be established and documented by administrative or executive policy, or by legislative action. [GASBS 34, fn17]

⁷Condition assessments should be documented in such a manner that they can be replicated. Replicable condition assessments are those that are based on sufficiently understandable and complete measurement methods such that different measurers using the same methods would reach substantially similar results. Condition assessments may be performed by the government itself or by contract. [GASBS 34, fn18]

⁸Condition assessments may be performed using statistical samples that are representative of the eligible infrastructure assets being preserved. Governments may choose to assess their eligible infrastructure assets on a cyclical basis. For example, one-third may be assessed each year. If a cyclical basis is used, a condition assessment is considered *complete* for a network or subsystem only when condition assessments have been performed for all (or statistical samples of) eligible infrastructure assets in that network or subsystem. [GASBS 34, fn19]

⁹For example, condition could be measured either by a condition index or as the percentage of a network of infrastructure assets in good or poor condition. [GASBS 34, fn20]

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improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.¹⁰ [GASBS 34, ¶25, as amended by GASBS XX, ¶27]

.108 If the requirements of paragraphs .105 and .106 are no longer met, the depreciation requirements of paragraphs .104 and .113 should be applied for subsequent reporting periods.¹¹ [GASBS 34, ¶26]

Reporting Works of Art and Historical Treasures

.109 Except as discussed in this paragraph, governments should capitalize works of art, historical treasures, and similar assets at their historical cost or acquisition value¹² whether they are held as individual items or in a collection. Governments are encouraged, but not required, to capitalize a collection (and all additions to that collection) whether donated or purchased that meets all of the following conditions.¹³ The collection is:

- a. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain
- b. Protected, kept unencumbered, cared for, and preserved
- c. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Governments should disclose information about their works of art and historical collections as required by Section 2300, paragraph .119. [GASBS 34, ¶27, as amended by GASBS 72, ¶79]

.110 Recipient governments should recognize as revenues donations of works of art, historical treasures, and similar assets, in accordance with Section N50, “Nonexchange Transactions.” When donated collection items are added to *noncapitalized* collections, governments should recognize program expense equal to the amount of revenues recognized. [GASBS 34, ¶28]

.111 Capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. [GASBS 34, ¶29]

¹⁰A change from depreciation to the modified approach should be reported as a change in an accounting estimate. [GASBS 37, ¶8]

¹¹This change should be reported as a change in accounting estimate. [GASBS 34, fn21]

¹²For purposes of this measurement, the date of donation is the acquisition date. [GASBS 34, ¶27, as amended by GASBS 72, ¶79]

¹³Collections already capitalized at June 30, 1999, should remain capitalized and all additions to those collections should be capitalized, even if they meet the conditions for exemption from capitalization. [GASBS 34, fn22]

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Reporting Capital Assets in Government-Wide Financial Statements

.112 Capital assets that are being or have been depreciated (paragraph .113) should be reported net of accumulated depreciation in the statement of net position. (Accumulated depreciation may be reported on the face of the statement or disclosed in the notes.) Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach (paragraphs .105–.107), should be reported separately if the government has a significant amount of these assets. Capital assets also may be reported in greater detail, such as by major class of asset (for example, infrastructure, buildings and improvements, vehicles, and machinery and equipment). Required disclosures are discussed in Section 2300, paragraphs .117 and .118. [GASBS 34, ¶20, as amended by GASBS 63, ¶8]

.113 Depreciation expense should be reported in the statement of activities as discussed in Section 2200, paragraphs .132 and .133. Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. It may be calculated for (a) a class of assets, (b) a network of assets,¹⁴

(a) a subsystem of a network,¹⁵ or (d) individual assets. (Composite methods may be used to calculate depreciation expense. See paragraphs .159–.164 for a more complete discussion of depreciation.) [GASBS 34, ¶22]

Reporting General Capital Assets

.114 General capital assets are capital assets of the government that are not specifically related to activities reported in proprietary or fiduciary funds. General capital assets are associated with and generally arise from governmental activities. Most often, they result from ~~the expenditure an outflow~~ of governmental fund financial resources. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position. Reporting *general* infrastructure assets at transition to GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, is discussed beginning at paragraph .145. [GASBS 34, ¶80, as amended by GASBS 63, ¶8 and GASBS XX, ¶27]

¹⁴A network of assets is composed of all assets that provide a particular type of service for a government. A network of infrastructure assets may be only one infrastructure asset that is composed of many *components*. For example, a network of infrastructure assets may be a dam composed of a concrete dam, a concrete spillway, and a series of locks. [GASBS 34, fn14]

¹⁵A subsystem of a network of assets is composed of all assets that make up a similar portion or segment of a network of assets. For example, all the roads of a government could be considered a network of infrastructure assets. Interstate highways, state highways, and rural roads could each be considered a subsystem of that network. [GASBS 34, fn15]

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Reporting Capital Assets in Proprietary Fund Financial Statements

.115 Capital assets of proprietary funds (enterprise and internal service) should be reported in the government-wide statement of net position and in the proprietary fund statement of net position. Capital assets of proprietary funds should be capitalized and reported as discussed in paragraphs .102–.111 above. [GASBS 34, ¶¶92 and ¶97, as amended by GASBS 63, ¶8]

Reporting Capital Assets in Fiduciary Fund Financial Statements

.116 Capital assets of fiduciary funds and fiduciary component units should be reported in the statement of fiduciary net position. These assets should be capitalized and reported as discussed in paragraphs .102–.111 above. [GASBS 34, ¶106, as amended by GASBS 63, ¶8 and GASBS 84, ¶5; GASBS 34, ¶108, as amended by GASBS 63, ¶8]

Required Note Disclosures about Capital Assets

.117 Required disclosures concerning capital assets are discussed in Section 2300, paragraphs .117 and .118.

Required Supplementary Information—Modified Approach

.118 Governments should present the following schedules, derived from asset management systems, as required supplementary information (RSI) for all eligible infrastructure assets¹⁶ that are reported using the modified approach:

- a. The assessed condition, performed at least every three years, for at least the three most recent complete condition assessments, indicating the dates of the assessments
- b. The estimated annual amount calculated at the beginning of the fiscal year to maintain and preserve at (or above) the condition level established and disclosed by the government compared with the amounts actually expended (as discussed in paragraph .107) for each of the past five reporting periods.

[GASBS 34, ¶132]

¹⁶If a government applies the provisions of paragraphs .105 and .106 to a subsystem of infrastructure assets (for example, interstate highways), then the RSI disclosures required by this paragraph should be for that *subsystem*. [GASBS 34, fn57]

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.119 The following disclosures¹⁷ should accompany the schedules required by paragraph .118:

- a. The basis for the condition measurement and the measurement scale used to assess and report condition. For example, a basis for *condition measurement* could be distresses found in pavement surfaces. A *scale* used to assess and report condition could range from zero for a failed pavement to 100 for a pavement in perfect condition.
- b. The condition level at which the government intends to preserve its eligible infrastructure assets reported using the modified approach.
- c. Factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules. If there is a change in the condition level at which the government intends to preserve eligible infrastructure assets, an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the current period also should be disclosed. (Paragraphs .901 and .902 provide a nonauthoritative illustration of these schedules and related disclosures.)

[GASBS 34, ¶133]

Interest Cost Incurred before the End of a Construction Period

- .120 In financial statements ~~prepared using~~presented applying the economic resources measurement focus and accrual basis of accounting, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset. [GASBS 89, ¶4, as amended by GASBS XX, fn10]
- .121 In financial statements ~~prepared using~~presented applying the ~~current~~short-term financial resources measurement focus and accrual basis of accounting, interest cost incurred before the end of a construction period should be recognized as an ~~expenditure~~outflow of short-term financial resources on a basis consistent with governmental fund accounting principles. [GASBS 89, ¶5, as amended by GASBS XX, ¶12 and ¶23]

¹⁷Governments with asset management systems for infrastructure assets that gather the information required by paragraph .118 and this paragraph and that do not use the modified approach are encouraged to provide the information as supplementary information. [GASBS 34, fn58]

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Other Matters

Intangible Assets

.122 As used in this section, except as described in paragraph .123, an intangible asset is an asset¹⁸ that possesses all of the following characteristics:

- a. *Lack of physical substance.* An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
- b. *Nonfinancial nature.* In the context of this section, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
- c. *Initial useful life extending beyond a single reporting period.*

[GASBS 51, ¶2]

¹⁸In Concepts Statement No. 4, *Elements of Financial Statements*, assets are defined as “resources with present service capacity that the government presently controls,” with a *resource* being defined as “an item that can be drawn on to provide services to the citizenry,” and *present service capacity* being defined as an asset’s “existing capability to enable the government to provide services, which in turn enables the government to fulfill its mission.” [GASBS 51, fn1]

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.123 The provisions of paragraphs .124–.137 apply to all intangible assets except for the following:

- a. Assets that meet the description in the preceding paragraph if the assets meet the definition of investments.¹⁹
- b. Assets resulting from lease transactions reported by lessees, which are addressed in Section L20.
- c. Assets of an operator resulting from public-private and public-public partnerships, which are addressed in Section P90.
- d. Assets resulting from subscription-based information technology arrangements, which are addressed in Section S80.

[GASBS 51, ¶3, as amended by GASBS 69, ¶39, GASBS 72, ¶64, GASBS 87, ¶20, GASBS 94, ¶37–¶39, and GASBS 96, ¶15]

Classification

.124 All intangible assets subject to the provisions of paragraphs .124–.137 (see paragraphs .122 and .123) should be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets, including the areas of recognition, measurement, depreciation (termed *amortization* for intangible assets), impairment, presentation, and disclosures should be applied to intangible assets, as applicable. The provisions of paragraphs .124–.137 should be applied to intangible assets in addition to the existing authoritative guidance for capital assets. [GASBS 51, ¶5]

Recognition

.125 An intangible asset should be recognized in the statement of net position²⁰ only if it is identifiable. An intangible asset is considered identifiable when either of the following conditions is met:

- a. The asset is separable, that is, the asset is *capable* of being separated or divided from the government and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability
- b. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

[GASBS 51, ¶6, as amended by GASBS 63, ¶8]

¹⁹The accounting and financial reporting for these assets generally should follow authoritative guidance for investments. [GASBS 51, fn2]

²⁰For purposes of this section, the term *statement of net position* includes the government-wide statement of net position, proprietary fund statement of fund net position, and if applicable, the statement of fiduciary net position, required to be presented as components of the basic financial statements, as discussed in Section 2200. [GASBS 51, fn4, as amended by GASBS 63, ¶8]

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Internally generated intangible assets

.126 Intangible assets are considered internally generated if they are created or produced by the government or an entity contracted by the government, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity. [GASBS 51, ¶7]

.127 Outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:

- a. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project
- b. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
- c. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred. [GASBS 51, ¶8]

Internally generated computer software

.128 Computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the government's personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this section. For example, licensed financial accounting software that the government modifies to add special reporting capabilities would be considered internally generated. [GASBS 51, ¶9]

.129 The activities involved in developing and installing internally generated computer software can be grouped into the following stages:

- a. *Preliminary Project Stage.* Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.

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- b. *Application Development Stage*. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.
- c. *Post-Implementation/Operation Stage*. Activities in this stage include application training and software maintenance.

Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational, that is, in condition for use. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage. [GASBS 51, ¶10]

.130 For internally generated computer software, the criteria in paragraph .127 should be considered to be met only when both of the following occur:

- a. The activities noted in the preliminary project stage are completed
- b. Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

Accordingly, outlays associated with activities in the preliminary project stage should be expensed as incurred. For commercially available software that will be modified to the point that it is considered internally generated, (a) and (b) above generally could be considered to have occurred upon the government's commitment to purchase or license the computer software. [GASBS 51, ¶11]

.131 Once the criteria in paragraph .127 have been met, as described in the preceding paragraph, outlays related to activities in the application development stage should be capitalized. Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational. [GASBS 51, ¶12]

.132 Outlays associated with activities in the post-implementation/operation stage should be expensed as incurred. [GASBS 51, ¶13]

.133 The activities within the stages of development described in paragraph .129 may occur in a sequence different from that shown in that paragraph. The recognition guidance for outlays associated with the development of internally generated computer software set forth above should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred. [GASBS 51, ¶14]

.134 Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized in accordance with paragraphs .130 and .131 if the modification results in any of the following:

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- a. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing
- b. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks
- c. An extension of the estimated useful life of the software.

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred. [GASBS 51, ¶15]

Specific Amortization Issues

.135 The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. Renewal periods related to such rights may be considered in determining the useful life of the intangible asset if there is evidence that the government will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal in relation to the level of service capacity expected to be obtained through the renewal. Such evidence should consider the required consent of a third party and the satisfaction of conditions required to achieve renewal, as applicable. [GASBS 51, ¶16]

.136 An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset that should be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should *not* be amortized. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should be tested for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset.²¹ [GASBS 51, ¶17]

Accounting and Financial Reporting for Intangible Assets Using the ~~Current Short-Term~~ Financial Resources Measurement Focus and Accrual Basis of Accounting

.137 Outlays associated with intangible assets subject to the provisions of paragraphs .124–.137 should be reported as ~~expenditures—outflows of short-term financial resources~~ when incurred in financial statements ~~prepared using presented applying the current short-term~~ financial resources measurement focus, and accrual basis of accounting. [GASBS 51, ¶19, as amended by GASBS XX, ¶12 and ¶23]

²¹This change should be accounted for as a change in accounting estimate. [GASBS 51, fn5]

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Capital Assets Acquired through Special Assessments

.138 Capital improvements financed by special assessments that provide capital assets to a government should be reported at historical cost and depreciated, as appropriate, as discussed in paragraphs .101–.115. Related revenues should be reported as either program revenues or general revenues in the government-wide statement of activities, in accordance with Section S40, paragraphs .124 and .125. Capital improvements financed by special assessments that provide capital assets to a government's proprietary funds should be reported as capital contributions ~~after~~ as part of other nonoperating revenues and expenses in the statement of revenues, expenses, and changes in fund net position in accordance with Section S40, paragraph .122. [GASBS 6, ¶23, as amended by GASBS 34, ¶6 and ¶18; GASBS 34, ¶50 and ¶52; GASBS 34, ¶103, as amended by GASBS 63, ¶8 and GASBS XX ¶30]

Capital Assets Acquired through Grants, Contributions, or Other Nonexchange Transactions

.139 Except for capital assets related to life-interests in real estate, capital assets acquired through grants, contributions, or other nonexchange transactions should be reported at historical cost or acquisition value and depreciated, as appropriate, as discussed in paragraphs .101–.116. Related revenues should be reported as either program revenues or general revenues in the government-wide statement of activities, in accordance with Section 2200, paragraphs ~~.435–.440~~ .136–.141. When related revenues are reported in proprietary funds, the capital contributions should be reported ~~after~~ as part of other nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses, and changes in fund net position in accordance with Section 2200, paragraph ~~.191~~ .194. [GASBS 34, ¶18, as amended by GASBS 72, ¶79 and GASBS 81, ¶27; GASBS 34, ¶50 and ¶52; GASBS 34, ¶103, as amended by GASBS 63, ¶8 and GASBS XX ¶30]

.140 Paragraphs .121–.126 of Section I70, “Irrevocable Split-Interest Agreements,” address accounting and financial reporting for capital assets that are related to life-interests in real estate.

Capital Assets Acquired through Leases

.141 Paragraphs .127–.136, .138, and .151 of Section L20 provide guidance on reporting capital assets acquired through leases.

Capital Assets Resulting from Subscription-Based Information Technology Arrangements

.142 Paragraphs .122–.156 of Section S80 provide guidance on accounting and financial reporting for capital assets resulting from subscription-based information technology arrangements. [GASBS 96, ¶25–¶61]

Equipment and Facilities Used in Landfills

.143 Section L10, paragraphs .106–.110, provides guidance for accounting and financial reporting for equipment and facilities used in operating municipal solid waste landfills.

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Capital Assets Obtained through Public-Private and Public-Public Partnerships

.144 Paragraphs .132–.135 of Section P90 provide guidance for capital assets that are obtained through public-private partnerships that either (a) meet the definition of a service concession arrangement or (b) do not meet the definition of a service concession arrangement and do not meet the definition of a lease.

Bankruptcies

.145 Accounting and financial reporting for remeasurement of capital assets in bankruptcy is discussed in Section Bn5.

Reporting General Infrastructure Assets at Transition to GASB Statement 34

.146 The requirements of Statement 34 are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999:

- Phase 1 governments—with total annual revenues of \$100 million or more—should apply the requirements of Statement 34 in financial statements for periods beginning after June 15, 2001.
- Phase 2 governments—with total annual revenues of \$10 million or more but less than \$100 million—should apply the requirements of Statement 34 in financial statements for periods beginning after June 15, 2002.
- Phase 3 governments—with total annual revenues of less than \$10 million—should apply the requirements of Statement 34 in financial statements for periods beginning after June 15, 2003.

For purposes of identifying the appropriate implementation phase, *revenues* includes all ~~revenues (not other financing sources)~~ inflows of resources from current activities of the primary government's governmental funds and revenues of enterprise funds, except for ~~extraordinary~~ unusual or infrequent items as defined in paragraph .145 of Section 1800, "Classification and Terminology," ~~paragraph .145.~~ Special-purpose governments engaged only in fiduciary activities should use total annual *additions*, rather than *revenues*, to determine the appropriate implementation phase. All component units should implement the requirements of Statement 34 no later than the same year as their primary government, regardless of the amount of each component unit's total revenues. [GASBS 34, ¶143, as amended by GASBS XX, ¶19 and ¶27]

.147 Prospective reporting of general infrastructure assets²² in the government-wide statement of net position is required beginning at the effective dates of Statement 34.

²²General infrastructure assets are those that are not specifically related to activities reported in proprietary or fiduciary funds, as discussed in paragraph .114. [GASBS 34, ¶80]

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Retroactive reporting of all *major* general infrastructure assets²³ is encouraged at that date. Phase 1 governments as described in paragraph .145 should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2005. Phase 2 governments should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006. Phase 3 governments are encouraged but are not required to report major general infrastructure assets retroactively. [GASBS 34, ¶148, as amended by GASBS 63, ¶8]

.148 If determining the actual historical cost of general infrastructure assets is not practical because of inadequate records, governments should report the estimated historical cost for major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980. (See paragraphs .153–.164 for a more complete discussion of methods of estimating the cost of infrastructure assets and, if appropriate, accumulated depreciation on infrastructure assets.) [GASBS 34, ¶149]

.149 If, during the transition period, information is not available for all networks of infrastructure assets, those networks for which information is available may be reported. [GASBS 34, ¶150]

.150 While governments are applying the transition provisions, they should make these disclosures:

- a. A description of the infrastructure assets being reported and of those that are not
- b. A description of any eligible infrastructure assets that the government has decided to report using the modified approach (paragraphs .105–.107).

[GASBS 34, ¶151]

Modified Approach for Reporting Infrastructure Assets

.151 Governments may begin to use the modified approach for reporting eligible infrastructure assets (as described in paragraphs .105–.107) as long as at least one complete condition assessment is available and the government documents that the eligible infrastructure assets are being preserved approximately at (or above) the condition level the government has established and disclosed. [GASBS 34, ¶152]

²³*Major* general infrastructure assets are assets that (a) meet the definition of a major asset as described in paragraph .154, (b) are associated with and generally arise from governmental activities, and (c) are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets, as described in paragraph .103. The transition period does not apply to proprietary funds and special-purpose governments engaged in business-type activities. [GASBS 34, fn66]

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.152 The three most recent complete condition assessments and the estimated and actual amounts to maintain and preserve the infrastructure assets for the previous five reporting periods required by paragraph .118 may not be available initially. In these cases, the information required by that paragraph should be presented for as many complete condition assessments and years of estimated and actual expenses as are available. [GASBS 34, ¶153]

Initial Capitalization of General Infrastructure Assets

Determining Major General Infrastructure Assets

.153 At the applicable general infrastructure transition date, phase 1 and 2 governments are required to capitalize and report major general infrastructure assets that were acquired (purchased, constructed, or donated)²⁴ in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period. [GASBS 34, ¶154]

.154 The approaches in paragraphs .156–.158 may be used to estimate the costs of existing general infrastructure assets when actual historical cost data are not available. These approaches are examples only; governments may use any approach that complies with the intent of Statement 34. General infrastructure assets acquired after the effective dates of Statement 34 (paragraph .145 of this section) should be reported using historical costs. [GASBS 34, ¶155]

.155 The determination of major general infrastructure assets should be at the network or subsystem level and should be based on these criteria:

- a. The cost or estimated cost of the subsystem is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999, *or*
- b. The cost or estimated cost of the network is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

Reporting of nonmajor networks is encouraged but not required. [GASBS 34, ¶156]

Establishing Capitalization at Transition

.156 The initial capitalization amount should be based on historical cost. If determining historical cost is not practical because of inadequate records, estimated historical cost may be used. [GASBS 34, ¶157]

²⁴For purposes of this section, governments that have the primary responsibility for managing an infrastructure asset should report the asset. A government should report an asset even if it has contracted with a third party to maintain the asset. [GASBS 34, fn67]

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Estimated Historical Cost—Current Replacement Cost

.157 A government may estimate the historical cost of general infrastructure assets by calculating the current replacement cost of a similar asset and deflating this cost through the use of price-level indexes to the acquisition year (or estimated acquisition year if the actual year is unknown). There are a number of price-level indexes that may be used, both private- and public-sector, to remove the effects of price-level changes from current prices. Accumulated depreciation would be calculated based on the deflated amount, except for general infrastructure assets reported according to the modified approach. [GASBS 34, ¶158]

.158 The following example illustrates the calculation of estimated historical cost. In 1998, a government has sixty-five lane-miles of roads in a secondary road subsystem, and the current construction cost of similar roads is \$1 million per lane-mile. The estimated total current replacement cost of the secondary road subsystem of a highway network, therefore, is \$65 million (\$1 million × 65). The roads have an estimated weighted-average age of fifteen years; therefore, 1983 is considered to be the acquisition year. Based on the U.S. Department of Transportation, Federal Highway Administration's *Price Trend Information for Federal-Aid Highway Construction* (publication number FHWA-IF-99-001) for 1983 and 1998, 1983 construction costs were 69.03 percent of 1998 costs. The estimated historical cost of the subsystem, therefore, is \$44,869,500 (\$65 million × 0.6903). In 1998, the government would have reported the subsystem in its financial statements at an estimated historical cost of \$44,869,500 less accumulated depreciation for fifteen years based on that deflated amount. [GASBS 34, ¶159]

Estimated Historical Cost from Existing Information

.159 Other information may provide sufficient support for establishing initial capitalization. This information includes bond documents used to obtain financing for construction or acquisition of infrastructure assets, ~~expenditures~~ outflows of resources reported in capital project funds or capital outlays in governmental funds, and engineering documents. [GASBS 34, ¶160, as amended by GASBS XX, ¶127]

Methods for Calculating Depreciation

.160 Governments may use any established depreciation method. Depreciation may be based on the estimated useful life of a class of assets, a network of assets, a subsystem of a network, or individual assets. For estimated useful lives, governments can use (a) general guidelines obtained from professional or industry organizations, (b) information for comparable assets of other governments, or (c) internal information. In determining estimated useful life, a government also should consider an asset's present condition and how long it is expected to meet service demands. [GASBS 34, ¶161]

.161 Continuing the example from paragraph .156, assume that, in 1998, the road subsystem had a total estimated useful life of twenty-five years from 1983 and therefore has an estimated remaining useful life of ten years. Assuming no residual value at the

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end of that time, straight-line depreciation expense would be \$1,794,780 per year (\$44,869,500 ÷ 25), and accumulated depreciation in 1998 would be \$26,921,700 (\$1,794,780 × 15). [GASBS 34, ¶162]

Composite Methods

.162 Governments also may use composite methods to calculate depreciation expense. Composite methods refer to depreciating a grouping of similar assets (for example, interstate highways in a state) or dissimilar assets of the same class (for example, all the roads and bridges of a state) using the same depreciation rate. Initially, a depreciation rate for the composite is determined. Annually, the determined rate is multiplied by the cost of the grouping of assets to calculate depreciation expense. [GASBS 34, ¶163]

.163 A composite depreciation rate can be calculated in different ways. The rate could be calculated based on a weighted average or on an unweighted-average estimate of useful lives of assets in the composite. For example, the composite depreciation rate of three interstate highways with estimated remaining useful lives of sixteen, twenty, and twenty-four years could be calculated using an unweighted average estimated as follows:

$$\frac{1}{(16+20+24)/3} = 5\% \text{ annual depreciation rate}$$

A composite depreciation rate may also be calculated based on an assessment of the useful lives of the grouping of assets. This assessment could be based on condition assessments or experience with the useful lives of the grouping of assets. For example, based on experience, engineers may determine that interstate highways generally have estimated remaining useful lives of approximately twenty years. In this case, the annual depreciation rate would be 5 percent. [GASBS 34, ¶164]

.164 The composite depreciation rate is generally used throughout the life of the grouping of assets. However, it should be recalculated if the composition of the assets or the estimate of average useful lives changes significantly. The average useful lives of assets may change as assets are capitalized or taken out of service. [GASBS 34, ¶165]

.165 The annual depreciation expense is calculated by multiplying the annual depreciation rate by the cost of the assets. For example, if the interstate highway subsystem cost \$100 million and the annual depreciation rate was 10 percent, then the annual depreciation charge would be \$10 million. Accumulated depreciation should not exceed the reported cost of the assets. [GASBS 34, ¶166]

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General Principles

Impairment of Capital Assets²⁵

Definition of Impairment

.166 Asset impairment is a *significant, unexpected decline in the service utility of a capital asset*. Governments generally hold capital assets because of the services the capital assets provide; consequently, capital asset impairments affect the service utility of the assets. The events or changes in circumstances that lead to impairments are not considered normal and ordinary. That is, at the time the capital asset was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the capital asset. [GASBS 42, ¶5]

.167 The service utility of a capital asset is the *usable capacity* that at acquisition was expected to be used to provide service, as distinguished from the *level of utilization*, which is the portion of the usable capacity currently being used. The *current usable capacity* of a capital asset may be less than its *original usable capacity* due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment or approval of laws or regulations or other changes in environmental factors, or change in manner or duration of use. Usable service capacity may be different from *maximum service capacity* in circumstances in which *surplus capacity* is needed for safety, economic, or other reasons. Decreases in utilization and existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairment. [GASBS 42, ¶6]

Assessment of Impairment

.168 The determination of whether a capital asset is impaired as described in paragraph .165 is a two-step process of (a) identifying potential impairments and (b) testing for impairment. Capital assets that have potential for meeting the definition of impairment are identified through events or changes in circumstances that are prominent and that denote the presence of indicators of impairment, such as those described in paragraphs .169 and .170. For capital assets so identified, a test of impairment as described in paragraph .171 should be performed to determine whether the circumstance or change in condition results in an impairment as defined in paragraph .165. [GASBS 42, ¶7]

²⁵The following paragraphs also apply to business-type activities and enterprise funds that apply Section Re10, "Regulated Operations," but do not preclude them from reporting a regulatory asset related to an impairment loss when appropriate in accordance with the provisions of that section. For purposes of this section, land is considered to be a separate capital asset from buildings and depreciable improvements and therefore should be evaluated separately for impairment. [GASBS 42, fn2, as amended by GASBS 62, ¶476–¶500; GASBS 42, fn3]

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Identification of Events or Changes in Circumstances That May Indicate Impairment

.169 The events or changes in circumstances affecting a capital asset that may indicate impairment are prominent—that is, conspicuous or known to the government. Absent any such events or changes in circumstances, governments are not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of their normal operations. The events or circumstances that may indicate impairment generally are expected to have prompted discussion by the governing board, management, or the media. [GASBS 42, ¶18]

Indicators of Impairment

.170 Impairment is indicated when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Common indicators of impairment include:

- a. Evidence of physical damage, such as for a building damaged by fire or flood, when the level of damage is such that restoration efforts are needed to restore service utility
- b. Enactment or approval of laws or regulations or other changes in environmental factors, such as new water quality standards that a water treatment plant does not meet (and cannot be modified to meet)
- c. Technological development or evidence of obsolescence, such as that related to a major piece of diagnostic or research equipment (for example, a magnetic resonance imaging machine or a scanning electron microscope) that is rarely used because newer equipment provides better service
- d. A change in the manner or expected duration of use of a capital asset,²⁶ such as closure of a school prior to the end of its useful life
- e. Construction stoppage, such as stoppage of construction of a building due to lack of funding, or development stoppage, such as stoppage of development of computer software due to a change in the priorities of management.

[GASBS 42, ¶19; GASBS 51, ¶18]

.171 A change in demand for the services of a capital asset is not considered a separate indicator of impairment. However, changes in demand may be caused by or associated with the indicators listed in paragraph .169, and capital assets in these circumstances should be tested for impairment. For example, decreased demand for the processing services of a mainframe computer because former users of the mainframe have transitioned

²⁶A capital asset that a government has decided to sell, but is continuing to use as originally intended until the sale occurs, is not considered to exhibit a change in manner or expected duration of use. A capital asset that a government has decided to sell and is not continuing to use is considered to exhibit a change in manner or expected duration of use and should, therefore, be evaluated for impairment. [GASBS 42, fn4]

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to PC- and server-based systems should be considered a change in demand associated with an indicator of impairment—evidence of obsolescence—and the main-frame should be tested for impairment. However, a decrease in demand resulting from the conclusion of a special project requiring large amounts of processing time on a main-frame computer that runs other applications should not be considered a change in demand associated with an indicator of impairment, and a test of impairment is not required. A decrease in school enrollment is another example of a change in demand. If this decrease in enrollment prompts management to close a school, a change in manner or duration of use has also resulted and a test for impairment should be performed. If, however, the decrease in enrollment results in the school's changing from an over-crowded condition to one in which classroom sizes are now below the state-required maximum and is not associated with another indicator of impairment, a test for impairment is not required. [GASBS 42, ¶10]

Impairment Test

.172 A capital asset identified through the processes described in paragraphs .167–.170 should be tested for impairment by determining whether both of the following two factors are present:

- a. ***The magnitude of the decline in service utility is significant.*** The expenses associated with continued operation and maintenance (including depreciation) or costs associated with restoration of the capital asset are significant in relationship to the current service utility. In circumstances other than those involving physical damage, management's action to address the situation is an indication that the expenses are too high in relation to the benefit.²⁷
- b. ***The decline in service utility is unexpected.*** The restoration cost or other impairment circumstance is not a part of the normal life cycle of the capital asset. Management is not expected to foresee with precision the useful life of a capital asset or the service utility throughout its useful life. However, there is a reasonable range of expectations about the service utility and useful life at the time of acquisition.

[GASBS 42, ¶11]

Measurement of Impairment

Capital Assets That Will Continue to Be Used by the Government

.173 For impaired capital assets that will continue to be used by the government, the amount of impairment—the portion of historical cost that should be written off—should be measured by the method described below that most appropriately reflects the decline in service utility of the capital asset.²⁸ The methods for measuring impairment are:

²⁷Paragraph .131 of Section L20, paragraph .148 of Section P90, and paragraph .138 of Section S80 provide additional guidance for assessing impairment of lease assets, intangible right-to-use assets of an operator in a public-private or public-public partnership, and subscription assets, respectively.

[GASBS 42, ¶11, as amended by GASBS 87, ¶34, GASBS 94, ¶52, and GASBS 96, ¶41]

²⁸Paragraph .131 of Section L20 and paragraph .148 of Section P90 provide additional guidance for measuring impairment of lease assets, intangible right-to-use assets of an operator in a public-private or public-public partnership, and subscription assets, respectively. [GASBS 42, ¶12, as amended by GASBS 87, ¶34, GASBS 94, ¶52, and GASBS 96, ¶41]

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- a. **Restoration cost approach.** Under this approach, the amount of impairment is derived from the estimated costs to restore²⁹ the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated restoration cost using an appropriate cost index or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.
- b. **Service units approach.** This approach isolates the historical cost of the service utility of the capital asset that cannot be used due to the impairment event or change in circumstances. The amount of impairment is determined by evaluating the service provided by the capital asset—either maximum estimated service units or total estimated service units throughout the life of the capital asset—before and after the event or change in circumstance.
- c. **Deflated depreciated replacement cost approach.** This approach replicates the historical cost of the service produced. A current cost for a capital asset to replace the current level of service is estimated. This estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars.

[GASBS 42, ¶12]

.174 Impairments resulting from physical damage generally should be measured using a restoration cost approach. [GASBS 42, ¶13]

.175 Impairments resulting from enactment or approval of laws or regulations or other changes in environmental factors or from technological development or obsolescence generally should be measured using a service units approach. [GASBS 42, ¶14]

.176 Impairments identified from a change in manner or duration of use generally should be measured using deflated depreciated replacement cost or using a service units approach. [GASBS 42, ¶15]

Capital Assets That Will No Longer Be Used by the Government and Construction Stoppage

.177 Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Capital assets impaired from construction or development stoppage also should be reported at the lower of carrying value or fair value. [GASBS 42, ¶16; GASBS 51, ¶18]

²⁹Restoration cost is the amount necessary to return the capital asset to its original condition and does not include any amount attributable to improvements and additions. [GASBS 42, fn5]

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Reporting Impairment Losses

.178 Unless the impairment is considered temporary as described in paragraph .178, the loss³⁰ from impairment should be reported in the statement of activities and statement of revenues, expenses, and changes in fund net position, if appropriate, as a program or operating expense, special or unusual or infrequent item, or extraordinary item in accordance with the guidance in paragraphs .130–.135, .144–.151, .194, and .195 of Section 2200. Impairment losses appropriately reported as program expense generally should be reported as a direct expense of the program that uses or used the impaired capital asset. Impairment loss should be reported as indicated regardless of whether the capital asset is being depreciated individually or as part of a composite group. If not otherwise apparent from the face of the financial statements, a general description, the amount, and the financial statement classification (for example, public works or instruction) of the impairment loss should be disclosed in the notes to the financial statements. [GASBS 42, ¶17, as amended by GASBS 62, ¶45–¶49, GASBS 63, ¶8, and GASBS XX, ¶9, ¶10, ¶30, and ¶31; GASBS XX, ¶9, ¶10, ¶30, and ¶31]

Permanent and Temporary Impairments

.179 Generally, an impairment should be considered permanent. In certain circumstances involving capital assets impaired through enactment or approval of laws or regulations or other changes in environmental factors, change in technology or obsolescence, change in manner or duration of use, or construction or development stoppage, evidence may be available to demonstrate that the impairment will be temporary. In such circumstances, the capital asset should not be written down. For example, a middle school that is not being used due to declining enrollment should not be written down if evidence, such as future middle school enrollment projections substantiated by current elementary school enrollment, residential development data, birth rates, or other economic indicators, demonstrates that the closing of the middle school will be temporary. Impairment losses recognized in accordance with this section should not be reversed in future years, even if the events or circumstances causing the impairment have changed. [GASBS 42, ¶18; GASBS 51, ¶18]

Capital Assets That Do Not Meet the Impairment Test

.180 If an event or circumstance indicates that a capital asset may be impaired, but the test of impairment determines that impairment has not occurred, the estimates used in depreciation calculations—remaining estimated useful life and salvage value—should be reevaluated and changed, if necessary.³¹ [GASBS 42, ¶19]

Disclosure of Idle Impaired Capital Assets

.181 The carrying amount of impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is considered permanent or

³⁰This guidance also applies to insured impairments that result in accounting gains. [GASBS 42, fn6]

³¹Changes to estimated useful lives and salvage values are accounted for on a prospective basis in future depreciation expense. [GASBS 42, fn7]

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temporary. The fair value disclosures for nonrecurring measurements required by Section 3100, "Fair Value Measurement," paragraphs .162 and .163, should be made. [GASBS 42, ¶120; GASBS 72, ¶180 and ¶181]

Insurance Recoveries³²

.182 In governmental fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the associated insurance recovery, which is reported as an ~~other financing source~~ inflow of resources from noncurrent activities or extraordinary ~~an unusual or infrequent~~ item, as appropriate. In governmental and business-type activities in government-wide financial statements and in proprietary fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery. The impairment loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years should be reported as a program revenue, nonoperating revenue, or ~~extraordinary~~ unusual or infrequent item, as appropriate. Insurance recoveries should be recognized only when realized or realizable. For example, if an insurer has admitted or acknowledged coverage, an insurance recovery would be realizable. If the insurer has denied coverage, the insurance recovery generally would not be realizable. If not otherwise apparent in the financial statements, the amount and financial statement classification of insurance recoveries should be disclosed. [GASBS 42, ¶21, as amended by GASBS XX ¶10 and ¶27]

Accounting for Impairments of Regulatory Assets

.183 When an operating asset or an asset under construction of a regulated business-type entity becomes impaired as defined in paragraph .165, the impairment should be accounted for in accordance with paragraphs .172–.178 of this section. In addition, the regulated business-type activity should determine whether recovery of any allowed cost is likely to be provided with (a) full return on investment during the period from the time the asset is impaired to the time when recovery is completed or (b) partial or no return on investment during that period. That determination should focus on the facts and circumstances related to the specific impairment and also should consider the past practice and current policies of the applicable regulatory jurisdiction on impairment situations. Based on that determination, the regulated business-type activity should account for the cost of the impaired plant as follows:

- a. *Full return on investment is likely to be provided.* Any disallowance of all or part of the cost of the impaired plant that is both *probable* and *reasonably estimable*, as those terms are used in paragraphs .151–.168 of Section C50, should be

³²In accordance with the provisions of Section C50, "Claims and Judgments," recoveries received from internal service funds should be accounted for in accordance with the provisions of this paragraph. Recoveries received from the general fund should be accounted for as reimbursements to the extent of the impairment loss, if any, and be reported as transfers in the fund financial statements for amounts in excess of the impairment loss, if any. [GASBS 42, fn8]

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recognized as a loss, and the carrying basis of the recorded asset should be correspondingly reduced. The remainder of the cost of the impaired plant should be reported as a separate new asset.

- b. *Partial or no return on investment is likely to be provided.* Any disallowance of all or part of the cost of the impaired plant that is both *probable* and *reasonably estimable*, as those terms are used in paragraphs .151–.168 of Section C50, should be recognized as a loss. The present value of the future revenues expected to be provided to recover the allowable cost of that impaired plant and return on investment, if any, should be reported as a separate new asset. Any excess of the remainder of the cost of the impaired plant over that present value also should be recognized as a loss. The discount rate used to compute the present value should be the regulated business-type activity’s incremental borrowing rate, that is, the rate that the regulated business-type activity would have to pay to borrow an equivalent amount for a period equal to the expected recovery period. In determining the present value of expected future revenues, the regulated business-type activity should consider such matters as (1) the probable time period before such recovery is expected to begin and (2) the probable time period over which recovery is expected to be provided. If the estimate of either period is a range, the guidance of paragraphs .151–.168 of Section C50 should be applied to determine the loss to be recognized. Accordingly, the most likely period within that range should be used to compute the present value. If no period within that range is a better estimate than any other, the present value should be based on the minimum time period within that range.

[GASBS 62, ¶488]

.184 The recorded amount of the new asset should be adjusted from time to time as necessary if new information indicates that the estimates used to record the separate new asset have changed. Those estimates include (a) the determination of whether full return on investment will be provided and, if not, the probable time period before recovery is expected to begin and the probable time period over which recovery is expected to be provided and (b) the amount of any probable and reasonably estimable disallowance of recorded costs of the impaired plant. The amount of the adjustment should be recognized as a loss or gain. The recorded carrying amount of the new asset should not be adjusted for changes in the regulated business-type activity’s incremental borrowing rate. [GASBS 62, ¶489]

.185 During the period between the date on which the new asset is recognized and the date on which recovery begins, the carrying amount should be increased by accruing a carrying charge. The rate used to accrue that carrying charge should be as follows:

- a. If full return on investment is likely to be provided, a rate equal to the allowed overall cost of capital in the jurisdiction in which recovery is expected to be provided should be used.

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- b. If partial or no return on investment is likely to be provided, the rate that was used to compute the present value should be used.

[GASBS 62, ¶490]

.186 During the recovery period, the new asset should be amortized as follows:

- a. If full return on investment is likely to be provided, the asset should be amortized in the same manner as that used for rate-making purposes.
- b. If partial or no return on investment is likely to be provided, the asset should be amortized in a manner that will produce a constant return on the unamortized investment in the new asset equal to the rate at which the expected revenues were discounted.

[GASBS 62, ¶491]

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No questions assigned.

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See also paragraphs .735–.749 of this section for information regarding impairment of capital assets and Question .703-2 in Section 2300 regarding note disclosures about capital assets. In addition, paragraphs .705 and .726–.728 of this section discuss issues related to infrastructure reporting.

.702-1 Q—What are land improvements?

A—Land improvements consist of betterments, other than buildings, that ready land for its intended use. Examples of land improvements include site improvements such as excavation, fill, grading, and utility installation; removal, relocation, or reconstruction of property of others, such as railroads and telephone and power lines; retaining walls; parking lots; fencing; and landscaping.

[GASBIG 2015-1, Q7.9.1]

.702-2 Q—Are library books depreciable capital assets?

A—If library books are considered to have a useful life of greater than one year, they are capital assets and are depreciable. Because most library holdings consist of a large number of books with modest values, group or composite depreciation methods (as discussed in paragraphs .161–.164 of this section) may be appropriate. (See Question .705-14 in this section.) In certain situations, library books may be considered works of art or historical treasures and could be reported using the provisions in paragraphs .109–.111 of this section.

[GASBIG 2015-1, Q7.9.2, as amended by GASBIG 2018-1, Q5.5]

.702-3 Q—What is an inexhaustible capital asset?

A—An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long. Land and certain land improvements are inexhaustible capital assets.

[GASBIG 2015-1, Q7.9.3]

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.702-4 Q—Donated capital assets should initially be reported at their acquisition value, according to paragraph .102 and footnote 1 of this section. How may acquisition value be calculated?

A—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. Acquisition value is a market-based entry price. Acquisition value may be calculated from manufacturers' catalogs or price quotes in periodicals, recent sales of comparable assets, or other reliable information. Professional assistance may be helpful but is not required.

[GASBIG 2016-1, Q4.54]

.702-5 Q—Does this section prescribe a minimum level for the capitalization of assets?

A—No. Different types of assets, subsystems, or networks may have different capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts. Additionally, qualitative characteristics may also affect capitalization policies. Different thresholds may be established and used for purposes other than financial reporting—for example, for management control purposes or for compliance with laws and regulations. Paragraph .106 of Section 2300 requires disclosure of capitalization policies, which include capitalization thresholds. (See also Question .702-17 in this section.)

[GASBIG 2015-1, Q7.9.5]

.702-6 Q—Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?

A—Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual

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asset. Computers, classroom furniture, and library books are assets that may not meet the capitalization policy on an individual basis, yet might be considered material collectively.

[GASBIG 2015-1, Q7.9.8]

.702-7 Q—When a capital asset is transferred within the same financial reporting entity, should the recipient fund (for example, enterprise fund) or component unit record the transferred asset at cost with related accumulated depreciation or as a single amount representing the net carrying value?

A—Paragraph .102 of this section requires that capital assets be reported at historical cost. In an intra-entity transfer, as required by paragraph .112 of Section S20, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,” historical cost is not changed, so the recipient should record the asset at its cost and report the accumulated depreciation. (See Question .708-2 in Section S20.)

[GASBIG 2015-1, Q7.9.9]

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- .702-8 Q—A government owns a building that it reports as a capital asset. The building has a carrying value of \$3 million and an appraised value of \$10 million. If the government transfers ownership of the building to a pension plan that it reports as a fiduciary component unit, how should the pension plan report the transaction in its separately issued financial statements?

A—In accordance with paragraph .112 of Section S20, because the government and the pension plan are part of the same reporting entity, the pension plan should report a capital asset of \$3 million (the government's carrying value of the building) and an addition (a contribution) of \$3 million (the carrying value of the building, less the amount paid by the pension plan—in this case, zero). (See also Question .702-9 in this section for a discussion related to the classification of assets acquired through an intra-entity transaction in the financial statements of the transferee government.)

[GASBIG 2019-1, Q4.9]

- .702-9 Q—A county government owns a parcel of land that it classifies as a capital asset with a carrying value of \$150,000. The county has agreed to transfer the land to the county redevelopment agency (RDA), a discretely presented component unit of the county. The RDA has obtained an independent appraisal valuing the land at \$1.7 million. Management of the RDA believes that, after the transfer, its intent is to sell the parcel at its appraised value. When the asset is transferred, can the RDA reclassify the land as an investment measured at fair value?

A—No. Paragraph .112 of Section S20 requires that an asset transferred within a financial reporting entity continue to be reported at the transferor's carrying value. Paragraph .107 of Section I50 provides that “. . . an asset that is initially reported as a capital asset and later is held for sale should not be reclassified as an investment.” Furthermore, paragraph .107 of Section I50 requires that the initial classification of an asset be retained for financial reporting purposes, even if the government's usage of the asset changes over time. The requirement to retain the original asset classification for financial reporting purposes applies even if the asset changes legal ownership within the financial reporting entity. Therefore, the RDA should retain the classification of the land as a capital asset and should report the transferred land at its retained carrying value of \$150,000.

[GASBIG 2019-1, Q4.10]

- .702-10 Q—Should construction in progress be included in capital assets?

A—Yes. Construction in progress should be included with capital assets in the statement of net position. It should be reported with other assets not

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being depreciated, such as land, certain land improvements, and infrastructure accounted for using the modified approach. (See Question .705-4 in this section about presentation of capital assets on the statement of net position.)

[GASBIG 2015-1, Q7.11.1]

- .702-11 Q—A city requires developers of new residential neighborhoods to build the infrastructure and then donate it to the city at the completion of the project. How should the city determine the cost of those assets?

A—Paragraph .102 and footnote 1 of this section require that donated capital assets be reported at acquisition value, which is determined as of the date of donation. In the example addressed in this question, the developer's cost for the infrastructure in new residential neighborhoods would be an acceptable method that could be used to determine acquisition value, but other methods—for example, an estimate of the cost associated with the construction of the infrastructure made by the city's public works department—also may be acceptable.

[GASBIG 2016-1, Q4.55]

- .702-12 Q—Streets that have been constructed by a developer and donated to a government comprise both the infrastructure and a right-of-way easement on the land upon which the infrastructure sits. The infrastructure should be reported at its acquisition value, which is determined as of the date of donation. Should a separate asset be reported for the right-of-way easement associated with the donated infrastructure? If so, how should the value of that asset be measured?

A—Yes. A separate asset for the right-of-way easement should be reported at acquisition value in accordance with paragraph .102 and footnote 1 of this section. (See Question .702-18 in this section about classifying right-of-way easements associated with infrastructure.) As described in Question .702-4 in this section, the acquisition value of an asset is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction. In the case of right-of-way easements for roads, however, generally the only willing buyer is the government. Therefore, the outlay the government would have made to acquire the easement in an exchange transaction can be used to determine its acquisition value. In most cases, a right-of-way easement for a road is, in substance, equivalent to ownership of the land because the grantor of the easement retains virtually no right of use. Accordingly, the acquisition value of the associated land could be used to approximate the outlay that would have been incurred by the government had it acquired the donated right-of-way easement through an exchange transaction and, therefore, could be used as a basis to

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determine the acquisition value of the right-of-way easement. There also may be other reasonable methodologies for determining the acquisition value of a donated right-of-way easement. However, forgoing the determination of the acquisition value of a donated right-of-way easement and instead arbitrarily assigning the easement a nominal value would be inappropriate.

[GASBIG 2016-1, Q4.56]

.702-13 Q—What are examples of the types of buildings that may be an ancillary part of a network or subsystem?

A—Rest area facilities associated with a turnpike, road maintenance structures such as shops and garages associated with a highway system, and water pumping buildings associated with water systems are examples.

[GASBIG 2015-1, Q7.12.7]

.702-14 Q—Should capital projects that mitigate the environmental impact of other *previously constructed* capital projects (for example, noise-abatement walls along highways, storm water remediation, and roadside beautification projects) be expensed in the period incurred or be reported as infrastructure assets?

A—If such projects result in assets that are used in operations, have long useful lives, are normally stationary, and normally can be preserved for a long period, they should be capitalized as infrastructure assets. However, if the capital projects are related to pollution remediation activities within the scope of Section P40, “Pollution Remediation Obligations,” the capitalization guidance in paragraph .120 of that section should be followed.

[GASBIG 2015-1, Q7.12.10]

.702-15 Q—If a road is being depreciated, how should the cost of a project to remove and replace or to resurface the road be reported?

A—If the project is considered maintenance—a recurring cost that does not extend the road’s original useful life or expand its capacity—the cost of the project should be expensed. On the other hand, if the project increases the serviceability—increases load capacity, for example—or extends the original useful life of the road, the cost of the project should be capitalized. In that case, the cost of the replaced roadway surface and its associated accumulated depreciation should be removed. (See Question .702-16 in this section about accounting for disposals of infrastructure. See also Question

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.703-12 in this section about removing and replacing or resurfacing roads that are reported under the modified approach.)

[GASBIG 2015-1, Q7.12.11]

- .702-16 Q—When infrastructure assets are sold or otherwise disposed of in a transaction that does not constitute a disposal of government operations within the scope of Section Co10, “Combinations and Disposals of Operations,” how is a gain or loss calculated for the statement of activities?

A—A gain or loss would be calculated in the same manner as for other capital assets. The net book value of the infrastructure asset would be subtracted from the net amount realized from the sale or disposal. If the infrastructure asset was being depreciated, its net book value would be its historical cost or estimated historical cost, less accumulated depreciation. If the modified approach was being used, its net book value would be historical cost or estimated historical cost. (See Question .734-1 in this section about removing assets that were depreciated using a composite method.)

[GASBIG 2015-1, Q7.12.12]

- .702-17 Q—How detailed should records of infrastructure assets be?

A—Detailed records of individual assets are not necessarily required. The level at which infrastructure assets are reported determines the minimum amount of detail. Infrastructure may be reported by major class, network, subsystem, or individual asset. For example:

- All of the roads of a government could be capitalized collectively as the road network.
- A government could record its roads at the subsystem level by considering interstate highways, state highways, and rural roads each as separate subsystems.
- Roads could be recorded as subsystems consisting of different geographic regions.
- Roads could be recorded as subsystems consisting of the major components of a road—for example, roadbed, overlay, curbs and gutters, lighting, traffic signals, and signage.
- A government may capitalize one type of infrastructure asset at the network level and capitalize other infrastructure assets at the subsystem or even the individual asset level.
- Each road could be capitalized individually.
- Roads could be capitalized in specific segments, such as from intersection to intersection.

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- Roads capitalized individually, whether as whole roads or in segments, could be further divided into individual assets by components.

If a government decided that a greater level of detail was needed for internal management purposes, such as maintenance, insurance, and stewardship responsibilities, it could select a lower capitalization threshold for management control, which is not required to be reflected in the financial statements.

[GASBIG 2015-1, Q7.12.13]

- .702-18 Q—Should land or easements associated with infrastructure assets, such as right-of-way easements for highways, be classified as infrastructure?

A—No. Land or easements associated with infrastructure should be classified as “land”—or another appropriate category, such as “right-of-way easements”—not as “infrastructure” and should be reported initially at acquisition value. The appropriate depreciation (or amortization) provisions also should be applied, for example, land generally should not be depreciated because it is inexhaustible.

[GASBIG 2016-1, Q4.57]

- .702-19 Q—A city purchased land from another government for the sum of \$1. How should the city report this acquisition?

A—The purchase price of \$1 does not meet the definition of an exchange transaction as defined in paragraph 1 of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. An exchange transaction is one in which each party receives and gives up essentially equal values. The substance of the transaction is that the city received a donation of land (a nonexchange transaction), and the city should report the land at acquisition value as required by paragraph .102 and footnote 1 of this section.

[GASBIG 2016-1, Q4.58]

- .702-20 Q—Are land improvements depreciable?

A—Improvements that produce permanent benefits—for example, fill and grading costs that ready land for the erection of structures and certain landscaping—are not depreciable. Alternatively, improvements that are considered part

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of a structure or that deteriorate with use or the passage of time, such as parking lots and fencing, should be considered depreciable. (See Question .702-1 in this section.)

[GASBIG 2015-1, Q7.13.4]

.702-21 Q—How is estimated useful life calculated?

A—In determining estimated useful life, a government should consider an asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service and technology demands. For an intangible asset, a government also should consider any legal, regulatory, or contractual provisions that may limit the length of the asset's useful life. Useful lives should be based upon the government's own experience and plans for the assets. Although comparison with other governments or other organizations may provide some guidance, property management practices, asset usage, and other variables (such as weather) may vary significantly between governments.

[GASBIG 2015-1, Q7.14.1]

.702-22 Q—Parks are capital assets that are long-lived and stationary in nature, two characteristics of infrastructure assets. Can parks be considered infrastructure networks and, therefore, be eligible for the modified approach?

A—No. Because parks consist primarily of land, which is not considered to be infrastructure, parks should not be considered infrastructure networks. Some of the subsystems within a park, such as roads, trails, or sewers, could be considered infrastructure and could be eligible to use the modified approach. Some of the other components of a park, such as buildings and sports facilities, are depreciable capital assets.

[GASBIG 2015-1, Q7.16.3]

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.703-1 Q—When infrastructure assets are sold or otherwise disposed of in a transaction that does not constitute a disposal of government operations within the scope of Section Co10, how is a gain or loss calculated for the statement of activities?

A—A gain or loss would be calculated in the same manner as for other capital assets. The net book value of the infrastructure asset would be subtracted from the net amount realized from the sale or disposal. If the infrastructure asset was being depreciated, its net book value would be its historical

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cost or estimated historical cost, less accumulated depreciation. If the modified approach was being used, its net book value would be historical cost or estimated historical cost. (See Question .734-1 in this section about removing assets that were depreciated using a composite method.)

[GASBIG 2015-1, Q7.12.12]

.703-2 Q—What is the modified approach for reporting infrastructure assets?

A—The modified approach is an alternative to depreciation that may be applied for eligible infrastructure capital assets (see Question .703-3 in this section) that meet two requirements. First, the assets should be managed using an asset management system that meets the criteria in paragraph

.105 of this section. Second, the government should document that the assets are being preserved at or above a condition level established by the government as required by paragraph .106 of this section. Under the modified approach, depreciation expense is not recorded for these assets. Rather, costs for both maintenance and preservation of these assets should be expensed in the period incurred. Additions and improvements, on the other hand, are capitalized. (See nonauthoritative paragraph .903 of this section for illustrations of the information required to be presented as RSI for eligible infrastructure assets reported using the modified approach.)

[GASBIG 2015-1, Q7.16.1]

.703-3 Q—What is meant by “*eligible* infrastructure assets” referred to in Question .703-2 in this section?

A—Eligible infrastructure assets are those that compose either a network or a subsystem. (See Question .705-6 in this section.) Therefore, if used, the modified approach should be applied to *all* assets within the selected network or subsystem.

[GASBIG 2015-1, Q7.16.2]

.703-4 Q—Parks are capital assets that are long-lived and stationary in nature, two characteristics of infrastructure assets. Can parks be considered infrastructure networks and, therefore, be eligible for the modified approach?

A—No. Because parks consist primarily of land, which is not considered to be infrastructure, parks should not be considered infrastructure networks. Some of the subsystems within a park, such as roads, trails, or sewers, could

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be considered infrastructure and could be eligible to use the modified approach. Some of the other components of a park, such as buildings and sports facilities, are depreciable capital assets.

[GASBIG 2015-1, Q7.16.3]

.703-5 Q—Can governments use the modified approach for eligible infrastructure assets reported in an enterprise fund?

A—Yes. The modified approach is not limited to general infrastructure assets—that is, infrastructure assets associated with governmental activities. Eligible infrastructure assets of enterprise funds that were previously depreciated may also be reported using the modified approach. This permits similar assets (for example, all roads, including toll highways) to be reported using the same approach regardless of whether the assets are reported as a governmental or a business-type activity. The assets would be reported using the same approach in both the enterprise fund and government-wide statements.

[GASBIG 2015-1, Q7.16.4]

.703-6 Q—May one agency or department of a government select the modified approach and another select depreciation accounting?

A—The selection of the modified approach is made individually for each subsystem or network of infrastructure assets. However, if agencies or departments report parts of the same network or subsystem, the same approach should be applied by each agency or department.

[GASBIG 2015-1, Q7.16.5]

.703-7 Q—A county that uses the modified approach to report its road network transfers a road to a city. Should the road that is removed from the county's road network be written off?

A—Yes. The road should be written off in the government-wide and enterprise fund financial statements, as applicable, in the period that it is transferred to the city. A functional expense should be reported for the historical cost of the road, and the related asset account (for example, road network) should be reduced by the same amount.

[GASBIG 2015-1, Q7.16.6]

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.703-8 Q—Is use of the modified approach linked to retroactive reporting of infrastructure? For example, can a phase 3 government that does not opt to retroactively report infrastructure account for its prospectively reported infrastructure using the modified approach?

A—The use of the modified approach is not limited to entities that are required to retroactively report infrastructure. A phase 3 government that opts to report infrastructure on a prospective basis may apply the modified approach if it meets the requirements outlined in paragraph .105 of this section.

[GASBIG 2015-1, Q7.16.7]

.703-9 Q—Under the modified approach, costs for both maintenance and preservation of eligible infrastructure assets (for example, a network) should be expensed in the period incurred. Is this treatment different from traditional depreciation?

A—Yes. Maintenance costs allow these assets to continue to be used during their originally established useful life. Maintenance costs are expensed in the period incurred, regardless of the method of accounting for the assets. For assets accounted for using depreciation, preservation costs extend the useful life of the assets beyond their previously established useful life. For assets accounted for using the modified approach, preservation costs are what is intended to keep the assets at (or above) the condition level established by the government. Preservation costs are capitalized and depreciated if the assets are accounted for using traditional depreciation, but are expensed in the period incurred if the assets are accounted for using the modified approach.

	<u>Modified Approach</u>	<u>Depreciation</u>
Maintenance costs	Expense	Expense
Preservation costs (see Question .703-10)	Expense	Capitalize
Additions and improvements	Capitalize	Capitalize

[GASBIG 2015-1, Q7.17.1]

.703-10 Q—What are preservation costs?

A—Although the term is not defined in this section, preservation costs generally are considered to be those outlays that (a) extend the useful life of assets accounted for using traditional depreciation beyond what was established as the original estimated useful life or (b) are intended to keep assets

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that are accounted for using the modified approach at (or above) the condition level established by the government but do not increase the capacity or efficiency of the assets. (See Question .703-9 in this section for discussion of accounting for preservation costs.)

[GASBIG 2015-1, Q7.17.2]

- .703-11 Q—A road reported using the modified approach undergoes a major reconstruction. As with most reconstruction efforts, the project consists of preserving the existing road as well as making additions and improvements. Should the cost of the project be expensed or capitalized?

A—The cost of preserving the existing road should be expensed, and the cost of the additions and improvements should be capitalized. Any reasonable approach may be used to estimate the capitalizable and noncapitalizable portions of the project.

[GASBIG 2015-1, Q7.17.3]

- .703-12 Q—Should the cost of removing and replacing or resurfacing an existing roadway be capitalized if the modified approach is used?

A—Under the modified approach, maintenance and preservation costs are expensed in the current period. However, if the project also increases the roadway's capacity or efficiency (see Question .703-14 in this section), such as lane widening or alignment improvements that permit speed limits to be raised, the portion of costs associated with the increased capacity or efficiency should be estimated and capitalized. (See Question .702-2 in this section about removing and replacing or resurfacing roads that are being depreciated.)

[GASBIG 2015-1, Q7.17.4]

- .703-13 Q—A government accounts for its bridge network using the modified approach. A typical practice for major rehabilitation of some bridges is to build a comparable new bridge (for example, the same number of lanes and original weight loads) alongside the old bridge and to tear down the old bridge. Should the government remove the cost of the old bridge from its asset base and capitalize the cost of the new bridge?

A—No. Because the new bridge is comparable in capacity and efficiency, the entire cost of building the new bridge and tearing down the old bridge would be considered a preservation cost and would be expensed. The service utility of the bridge within the bridge network—providing passage over an obstacle, such as a river or a road—is being preserved through these

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efforts. If the new bridge had increased capacity or efficiency of the bridge network, the portion of the cost of the new bridge associated with the increased capacity or efficiency would have been capitalized. (See also Questions .703-11 and .703-12 in this section.)

[GASBIG 2015-1, Q7.17.5]

.703-14 Q—What constitutes a change in capacity or efficiency?

A—A change in capacity increases the level of service provided by an asset. For example, additional lanes could be added to a road or the weight capacity could be increased. A change in efficiency also increases the level of service, but without increasing the size of the asset. For example, the speed limit of a road may be increased after entrance and exit ramps are added to a state highway to convert it to an interstate highway.

[GASBIG 2015-1, Q7.17.6]

.703-15 Q—When is a government no longer permitted to use the modified approach for its infrastructure assets?

A—The determination of whether the modified approach may be used is made on a network-by-network or subsystem-by-subsystem basis. A government may no longer use the modified approach for an eligible infrastructure asset if it fails to meet the requirements of paragraphs .105 and .106 of this section for that asset. Reasons could include failure to perform a replicable condition assessment at least every three years, failure to document the condition assessment, a condition assessment that demonstrates that the asset was not maintained approximately at or above the condition level established by the government, and failure to estimate the annual amount needed to maintain and preserve the asset.

[GASBIG 2015-1, Q7.18.1]

.703-16 Q—If a government is not permitted to continue to use the modified approach because the infrastructure assets no longer meet the requirements of paragraphs .105 and .106 of this section, in what year is the change to the traditional depreciation approach reported? How is the change reported?

A—Depreciation of the infrastructure assets would begin in the year subsequent to the year that the requirements to use the modified approach are not met. This change would be accounted for prospectively as a change in accounting estimate, as provided for in footnote 10 of this section. Application of the modified approach essentially equates to the estimation of a

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useful life of such length that the amount of annual depreciation is insignificant. Therefore, a change in the estimated useful life from almost infinite to a shorter, finite life over which depreciation will be recorded should be reported as a change in estimate. The useful life and salvage value of the asset would be estimated and a depreciation method selected at the conversion date. The historical cost of the asset would be depreciated over the period from the cessation of the modified approach through the end of the remaining life of the asset.

[GASBIG 2015-1, Q7.18.2]

- .703-17 Q—A government performs condition assessments on a three-year cyclical basis and the condition assessment from the second year shows that the condition is significantly below the level established by the government. Is the government required to stop reporting based on the modified approach and begin depreciating the assets?

A—No. The determination of whether the requirements to use the modified approach have been met is made at the conclusion of a condition assessment cycle in accordance with footnote 8 of this section.

[GASBIG 2015-1, Q7.18.3]

- .703-18 Q—A government has maintained its infrastructure assets above the government's established condition level. Because of the consequences of a major storm in the final year of the three-year assessment cycle, the actual condition level no longer meets or exceeds the condition level established by the government. May the government continue to use the modified approach?

A—The answer depends upon a number of factors. If a government is unable to document that the infrastructure assets are being preserved approximately at (or above) the condition level established by management, the modified approach should *not* continue to be applied. The documentation of condition level includes the results of the *three* most recent complete condition assessments. In the example cited, the government should consider the results of its three most recent complete condition assessments—nine years of data if assessments have been performed using three-year assessment cycles—and should apply professional judgment to ascertain whether the modified approach should continue to be applied. Additionally, a government may reevaluate the condition level appropriate for the infrastructure assets based upon additional information and experience and, through appropriate administrative or executive policy or by legislative action, may lower the condition level. If the documented condition level meets or exceeds the revised condition level, the modified approach may be

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continued. The change in the established condition level and the effect of the change on the estimated annual amount to maintain and preserve the infrastructure assets should be disclosed as RSI. (See Questions .710-2 and .710-3 in this section.)

[GASBIG 2015-1, Q7.18.4]

.703-19 Q—An asset management system should include an up-to-date inventory. Would that require each road sign, light pole, and traffic signal to be tagged and inventoried annually?

A—Not necessarily. The level of detail and frequency of the inventory needed to meet the requirements to use the modified approach are determined by the asset management system used by the government. For example, if road signs, light poles, and traffic signals are managed individually, the inventory would identify those assets individually in order to support the financial statement assertions that that network or subsystem is maintained at or approximately at the established condition level. When such items are managed as part of a segment of the road system, they may be inventoried as part of the road system.

[GASBIG 2015-1, Q7.19.2]

.703-20 Q—According to this section, are there minimum training requirements for staff that carry out the functions of an asset management system?

A—No. However, as explained in footnote 7 of this section, the condition assessment performed as part of the asset management system should be based on sufficiently understandable and complete measurement methods such that different measurers using the same methods would reach substantially similar results.

[GASBIG 2015-1, Q7.19.3]

.703-21 Q—There are numerous asset management systems. Have any asset management systems been sanctioned as meeting the minimum characteristics to support the modified approach?

A—No. However, the specified minimum characteristics that an asset management system should exhibit in order to support use of the modified approach, as identified in paragraph .105 of this section, should be met.

[GASBIG 2015-1, Q7.19.4]

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- .703-22 Q—Is there a *minimum* condition level at which a government should preserve its infrastructure assets in order to apply the modified approach?

A—This section does not establish a minimum condition level. However, this level should be established in a formal, documented manner through appropriate administrative or executive policy or by legislative action. This level and any subsequent changes to the established level should be disclosed annually in the notes to RSI.

[GASBIG 2015-1, Q7.20.1]

- .703-23 Q—Who establishes the condition level of an infrastructure asset?

A—The government reporting the subsystem or network of infrastructure assets sets the condition level. This decision should be documented by administrative or executive policy or by legislative action and be disclosed in the notes to RSI. For example, a capital budget prepared by the executive branch and approved by the legislative branch could be used to document the established condition level.

[GASBIG 2015-1, Q7.20.2]

- .703-24 Q—May established condition levels for a network or subsystem consist of multiple elements?

A—Yes. A government may, for example, establish its condition level such that a certain proportion of the asset—85 percent of lane-miles—should exceed an upper-end condition level—an International Roughness Index of 4 (surface imperfections). At the same time, the policy could indicate that a different proportion—15 percent of lane-miles—should not fall below a low-end condition level—International Roughness Index of 6 (frequent minor depressions). (See nonauthoritative Illustration 2 in paragraph .903 of this section for another example of a condition level with multiple elements.)

[GASBIG 2015-1, Q7.20.3]

- .703-25 Q—What is a *complete* condition assessment? Does that refer to an assessment of all components of the network or subsystem?

A—A complete condition assessment measures the collective condition of assets within a network or subsystem. The assessment may be performed

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using statistical or other samples that are representative of the eligible infrastructure assets for the condition measurement established by the government.

[GASBIG 2015-1, Q7.20.4]

.703-26 Q—A sanitary district adopted the modified approach and completed an initial inspection cycle over a seven-year period for its sewers. Based on the results, cost considerations, and expected lives, the next cycle was split into two schedules. Sewers in “very good” condition will be inspected on a 10-year cycle and all others on a 3-year cycle (15–20 percent of all sewers). Could a seven-year initial assessment satisfy the requirements of an initial assessment under this section? Is the three-year requirement for completing condition assessments absolute, or will other considerations allow for an extension based on the extensive life of some classes of assets?

A—Three years is the maximum length of a condition assessment cycle for all types of infrastructure. The initial condition assessment performed over a period of seven years does not meet the requirements to begin using the modified approach. Paragraph .106 of this section requires that condition assessments be performed at least every three years. Footnote 8 of this section indicates that these condition assessments may be performed using statistical sampling and may be performed on a cyclical basis. The assessment can be performed in a single year during the three-year period or may be performed continuously over the three-year period. In either case, three years is the maximum time over which a complete condition assessment is required to be completed. The ongoing plan for condition assessment does not meet the requirements to use the modified approach due to the fact that some assets are being assessed on a 10-year cycle. Every sewer need not be assessed during the three-year period. However, every sewer should have an equal chance of being selected for testing during the three-year period as part of a statistical sampling plan.

[GASBIG 2015-1, Q7.20.5]

.703-27 Q—Does this section require governments to use the same condition assessment measures?

A—No. One government, for example, may select road smoothness as its condition measurement for its roads. Another government may select a measurement of distresses on the pavement. Yet another government may select a measurement that reflects both of these aspects of a road. Any of these condition assessment measures is acceptable.

[GASBIG 2015-1, Q7.20.6]

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.703-28 Q—May a government establish multiple methods of assessing condition for an individual network or subsystem?

A—No. However, a government may use different methods for different networks or for different subsystems within a network.

[GASBIG 2015-1, Q7.20.7]

.703-29 Q—A government adopts the modified approach and underspends the estimated amount needed to maintain its infrastructure at the condition level established by the government. Should the government stop using the modified approach and adopt depreciation accounting?

A—Attaining a certain level of spending on maintenance and preservation is not a criterion for determining if a government is required to switch from the modified approach to depreciation. The conclusive indicator of a government's failure to preserve its infrastructure would be a decline in condition level such that the infrastructure is no longer at or approximately at the level established by the government. Some reasons for underspending— such as mild weather, unexpected decline in usage, change in technology, and the economies that could derive from effective asset management— may not be indicative of a decline in condition level.

[GASBIG 2015-1, Q7.20.9]

.703-30 Q—Should an impairment loss be reported for capital assets accounted for using the modified approach that have incurred physical damage?

A—No. As a part of meeting the requirements to use the modified approach, management has made a commitment to maintain the network or subsystem at an established condition level. If a portion of the network or subsystem suffers physical damage, management is obligated to restore that portion to the established condition. Consequently, physical damage to capital assets accounted for using the modified approach is considered temporary in nature. (See Question .703-18 in this section.)

[GASBIG 2015-1, QZ.42.2]

.704 Reporting Works of Art and Historical Treasures

.704-1 Q—What are some examples of organizations that hold collections of works of art and historical treasures?

A—Common examples of organizations that hold “collections,” as used in this section, include museums, botanical gardens, libraries, aquariums,

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arboretums, historic sites, planetariums, zoos, art galleries, and nature, science, and technology centers. This list is not intended to be all-inclusive nor does it intend to imply that all items held by those organizations are collections.

[GASBIG 2015-1, Q7.21.1]

.704-2 Q—Are monuments considered “noncapitalizable works of art, historical treasures, or similar assets”?

A—Monuments are capital assets that may qualify as works of art, historical treasures, or similar assets if they meet the requirements of paragraph .109 of this section.

[GASBIG 2015-1, Q7.21.2]

.704-3 Q—Should the animals in a city zoo be considered capital assets and, therefore, be capitalized and depreciated over the estimated lives of the animals? Could zoo animals be considered a collection?

A—Zoo animals should be considered to be capital assets because they meet the definition in paragraph .103 of this section—assets used in operations that have a useful life of greater than one year. They may also be considered a collection. Collections of works of art, historical assets, and similar assets need not be capitalized in the circumstances described in paragraph .109 of this section. Only successful breeding colonies of zoo animals would likely meet the requirements in paragraph .109b that collections be preserved.

[GASBIG 2015-1, Q7.21.3]

.704-4 Q—Should all items added to a collection be capitalized regardless of whether they meet the capitalization threshold?

A—No. Collections are capital assets for which application of a capitalization threshold is generally appropriate.

[GASBIG 2015-1, Q7.21.4]

.704-5 Q—Should the organizational policy referred to in paragraph .109c of this section be a formal policy?

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A—That paragraph does not require this to be a formal policy; however, there should be some evidence to support the existence of the policy.

[GASBIG 2015-1, Q7.21.5]

.704-6 Q—The items in a collection, such as a mural painted on the wall of city hall, are permanently installed and cannot be removed without destroying them or greatly reducing their value. To meet the criteria for a noncapitalized collection, would a government still need to adopt a written policy that states that the proceeds from the sale of such items be used to acquire other items for the collection?

A—No. An organizational policy that requires that the proceeds from collection items sold be used to acquire other items for collections demonstrates a commitment and a probability that the collections will and can be maintained. The nature of collection items that cannot be removed for sale without their destruction or a significant reduction in their value sufficiently demonstrates a commitment and a probability that they will be maintained.

[GASBIG 2015-1, Q7.21.6]

.704-7 Q—A government has multiple collections, works of art, and historical treasures. Should the recognition provisions of paragraph .109 of this section be applied for the entire entity or on a collection-by-collection basis?

A—The provisions of paragraph .109 may be applied on a collection-by-collection basis.

[GASBIG 2015-1, Q7.21.8]

.704-8 Q—What is meant by “inexhaustible” collections or individual works of art or historical treasures?

A—Inexhaustible collections or individual works of art or historical treasures are those with extraordinarily long useful lives. Because of their cultural, aesthetic, or historical value, the holder of the asset (or assets) applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

[GASBIG 2015-1, Q7.21.9]

.704-9 Q—A historical treasure donated 10 years ago was not recorded. Its acquisition value, determined as of the date of the donation, was \$500,000. If the treasure instead had been donated in the current year, it is estimated that

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its acquisition value would be \$1,500,000. When this asset is initially reported in the current year as a correction of an error, should it be reported at \$500,000 or \$1,500,000?

A— Donated assets should be reported at acquisition value, which is determined as of the date of donation, as stated in paragraph .102 and footnote 1 of this section. The value of \$500,000 is the appropriate amount at which to report the donated historical treasure in the current year.

[GASBIG 2016-1, Q4.59, as amended by GASBIG 2017-1, Q5.30]

.705 Reporting Capital Assets in Government-Wide Financial Statements

.705-1 Q—What is an inexhaustible capital asset?

A—An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long. Land and certain land improvements are inexhaustible capital assets.

[GASBIG 2015-1, Q7.9.3]

.705-2 Q—Should construction in progress be included in capital assets?

A—Yes. Construction in progress should be included with capital assets in the statement of net position. It should be reported with other assets not being depreciated, such as land, certain land improvements, and infrastructure accounted for using the modified approach. (See Question .705-4 in this section about presentation of capital assets on the statement of net position.)

[GASBIG 2015-1, Q7.11.1]

.705-3 Q—How should accumulated depreciation be reported on the statement of net position?

A—Accumulated depreciation may be netted against capital assets or may be reported separately. Regardless of the presentation in the statement of net position, the notes to the financial statements should disclose accumulated depreciation separately in addition to changes in accumulated depreciation.

[GASBIG 2015-1, Q7.11.2]

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.705-4 Q—Are assets not being depreciated—such as land, certain land improvements (see Question .705-9 in this section), construction in progress, and infrastructure assets reported using the modified approach (see Question .703-2 in this section)—required to be displayed separately from depreciable assets in the statement of net position?

A—Yes, if they are significant. Capital assets not being depreciated should be reported separately from capital assets being depreciated.

[GASBIG 2015-1, Q7.11.3]

.705-5 Q—A county has determined that a portion of the cost of a road improvement project includes nondepreciable land improvements, such as removal of existing structures and excavation. Are these costs required to be reported separately from the depreciable costs of the project?

A—Yes. The portion of the cost attributable to nondepreciable land improvements (see Question .702-1 in this section) should be reported with other assets not being depreciated, such as land, construction in progress, and infrastructure accounted for using the modified approach.

[GASBIG 2015-1, Q7.11.4]

.705-6 Q—What is the difference between a network and a subsystem?

A—A network is composed of all assets that provide a particular type of service for a government. A subsystem is composed of all assets that make up a portion or segment of a network. For example, a water distribution system of a government could be considered a network. Pumping stations, storage facilities, and distribution mains could be considered subsystems of that network. Airport pavements could also be considered a network, with runways, taxiways, and aprons considered as subsystems. Another example of a network is a storm sewer system, with catch basins, storm drains, and inlets considered as subsystems.

[GASBIG 2015-1, Q7.12.8]

.705-7 Q—May a network or a subsystem consist of dissimilar items?

A—Yes. A government may account for dissimilar assets in networks or subsystems. The government may account for any of its capital assets in groupings that best suit its needs. For example, a road network could consist of pavements, traffic control devices, and signage.

[GASBIG 2015-1, Q7.12.9]

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- .705-8 Q—How is the salvage value of a capital asset (including infrastructure) determined?

A—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.

[GASBIG 2015-1, Q7.13.3]

- .705-9 Q—Are land improvements depreciable?

A—Improvements that produce permanent benefits—for example, fill and grading costs that ready land for the erection of structures and certain landscaping—are not depreciable. Alternatively, improvements that are considered part of a structure or that deteriorate with use or the passage of time, such as parking lots and fencing, should be considered depreciable. (See Question .702-1 in this section.)

[GASBIG 2015-1, Q7.13.4]

- .705-10 Q—Should capital assets be written off when they become fully depreciated?

A—No. Capital assets should be written off when they are disposed of. As a result of differences between estimated useful lives used for depreciation computations and actual useful lives, governments may, in limited cases, have capital assets that are fully depreciated but have not been disposed of. (See also Question .705-13 in this section.) Such capital assets should continue to be reported by the government. Fully depreciated capital assets do not affect the net balance of capital assets. However, the balances of historical cost and accumulated depreciation, which are disclosed separately in the notes to the financial statements and may be displayed separately in the statement of net position, are affected by and should include fully depreciated capital assets that have not been disposed of.

[GASBIG 2015-1, Q7.13.5]

- .705-11 Q—Is there a recommended schedule of useful lives?

A—No. A specific schedule is not recommended. Schedules of useful lives recommended by professional organizations may be a helpful starting point.

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However, schedules of depreciable lives established by federal or state tax regulations are generally not intended to represent useful lives.

[GASBIG 2015-1, Q7.14.2]

.705-12 Q—What are sources of useful life information?

A—For estimated useful lives, governments can use (a) general guidelines obtained from professional or industry organizations, (b) information for comparable assets of other governments, or (c) internal information. Examples of internal information include property replacement policies for equipment or vehicles, property disposal records, and budget documents.

[GASBIG 2015-1, Q7.14.3]

.705-13 Q—Once a depreciable asset’s useful life is estimated, is it ever necessary to review the estimate in later years?

A—Yes. Because depreciation is a method of allocating an asset’s cost over its useful life, a periodic review of this useful life is necessary for depreciation to reflect that allocation. Any change in useful life is applied prospectively in accordance with paragraph .132 of Section 2250, “Additional Financial Reporting Considerations.” As many factors may affect the useful life of an asset, periodic reassessment of estimated useful lives may be appropriate. For example, equipment may not be replaced according to property management policies if appropriations for the replacement costs are not made. Planned preventative maintenance may not be performed, resulting in a reduction in the useful life of an asset. The use of the asset may have changed, or the asset may have been damaged or impaired by weather or other circumstances. (See also Question .705-10 in this section.)

[GASBIG 2015-1, Q7.14.4]

.705-14 Q—What are composite depreciation methods? Is composite depreciation similar to group depreciation?

A—Composite depreciation refers to calculating depreciation for a collection of dissimilar assets, such as all assets composing a transportation network or a building. Group depreciation refers to calculating depreciation for a collection of similar assets, such as traffic signals or lane-miles of pavement of a road system. There is no distinction between composite and group depreciation in the method of accounting. A single composite depreciation rate is applied annually to the acquisition cost of the collection as a whole. This composite rate may be calculated in different ways, a few of which are illustrated in Exercise 1 in nonauthoritative paragraph .904 of this section.

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The estimated life for the group may be based upon the weighted average or simple average of the useful lives of the assets in the group or upon assessment of the life of the group as a whole. The depreciation rate may be based upon any established depreciation method. (See also Question .705-16 in this section.)

[GASBIG 2015-1, Q7.15.1]

- .705-15 Q—This section illustrates composite depreciation methods only in conjunction with infrastructure assets. Can the composite method be applied to other capital assets?

A—Yes. This section uses infrastructure assets as examples of assets that may be depreciated using composite methods in order to emphasize the options available for infrastructure assets. Use of the composite method can be applied to other types of capital assets.

[GASBIG 2015-1, Q7.15.3]

- .705-16 Q—Can composite depreciation be used for a diverse group of capital assets, such as a group including buildings, building improvements, equipment, furniture, and vehicles?

A—Although composite depreciation is applied to groups of dissimilar assets, it should not be applied across classes of assets. Paragraph .159 of this section indicates that depreciation may be calculated for a class of assets, a network or subsystem of assets, or individual assets. For example, all buildings could be grouped together and a single composite rate applied to all. Or each building could be depreciated separately using a composite rate reflecting the estimated useful lives of the various components of the building. When considering appropriate asset groups for composite depreciation, a government should also consider the requirement in paragraph ~~.132~~.133 of Section 2200 for including depreciation expense for capital assets that can specifically be identified with a function in its direct expenses and the requirement in paragraph .118d of Section 2300 to disclose the amount of current-period depreciation expense charged to each function. Assets should not be grouped in a way that would prevent a government from meeting the requirements of paragraphs ~~.132~~.133 of Section 2200 and .118d of Section 2300.

[GASBIG 2015-1, Q7.15.4]

.706 Reporting General Capital Assets

See paragraphs .705 and .707–.712 of this section.

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.707 Reporting Capital Assets in Proprietary Fund Financial Statements

No questions assigned.

.708 Reporting Capital Assets in Fiduciary Fund Financial Statements

No questions assigned.

.709 Required Note Disclosures about Capital Assets

No questions assigned.

.710 Required Supplementary Information—Modified Approach

.710-1 Q—Governments that apply the modified approach should report as RSI the estimated amounts needed to maintain and preserve the asset at (or above) the established condition level and the amounts actually expensed for each of the past five reported periods. Are these amounts required to be based on accrual standards?

A—Actual expenses should be reported ~~on~~applying the economic resources measurement focus and accrual basis of accounting. The estimated amounts produced by the asset management system could be on a ~~nonaccrual~~different basis. If estimated maintenance and preservation information is not ~~based on~~determined applying the economic resources measurement focus and accrual basis of accounting, that basis may be disclosed in a note to RSI.

[GASBIG 2015-1, Q7.20.10, as amended by GASBS XX, fn10]

.710-2 Q—In what circumstances could a government change aspects of performing the condition assessment for the modified approach, yet maintain consistency?

A—This section requires that condition assessments be performed in a consistent manner and that RSI disclosures include any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules. Consistency is achieved if the condition assessment is performed using the same method, basis, and scale for a complete assessment. For example, if a government performs its condition assessment over a three-year cycle, it should use the same method, basis, and scale throughout the three years in order to maintain consistency. A government may change the method, basis, or scale prior to beginning the subsequent complete assessment. If a change is made, it should be disclosed in RSI.

[GASBIG 2015-1, Q7.20.11]

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.710-3 Q—Can a government change its condition assessment methods as frequently as new condition assessment methods become available?

A—As the knowledge base of asset management grows, new methods of condition assessment will become available. Governments may adopt new condition assessment methods before beginning the next condition assessment. System upgrades that do not change the basic assessment methodology would not be considered a change in assessment methodology.

[GASBIG 2015-1, Q7.20.12]

.711 Interest Cost Incurred before the End of a Construction Period

No questions assigned.

.712 Other Matters

No questions assigned.

.713 Intangible Assets

.713-1 Q—Should commercially available computer software that is purchased or licensed by the government and placed into operation without modification requiring more than minimal incremental effort (that is, the computer software is not considered internally generated) be considered an intangible asset as described in this section?

A—Yes. Commercially available computer software that is not considered internally generated computer software, whether purchased or licensed, generally will meet the description of an intangible asset in paragraph .122 of this section. (See Questions .713-9, .717-10, and .717-11 in this section about the measurement of commercially available computer software that is not considered internally generated.)

[GASBIG 2015-1, QZ.51.1]

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.713-2 Q—In a sale of future revenues executed by governments that are not within the same financial reporting entity, does the cost of acquisition of future revenues recorded by the transferee government meet the description of an intangible asset in this section?

A—No. Such a transaction is in a monetary form. Therefore, it does not meet the “nonfinancial nature” characteristic of an intangible asset as described in paragraph .122b of this section.

[GASBIG 2015-1, QZ.51.3]

.713-3 Q—Is a copyright acquired by a public university through a contribution that the university uses primarily to generate royalty income an intangible asset subject to the provisions of this section?

A—No. Paragraph .123a of this section excludes from the scope of this section intangible assets that are acquired or created primarily for the purpose of directly obtaining income or profit.

[GASBIG 2015-1, QZ.51.4]

.713-4 Q—Should water rights acquired by a utility enterprise fund with the intent that they be used in operations as the main source for water sold by the utility fund be considered an intangible asset that is acquired or created primarily for the purpose of directly obtaining income or profit and, therefore, be excluded from the scope of this section under paragraph .123a of this section?

A—No. Any income or profit being generated by the utility fund through the sale of water is being generated from its overall operations, that is, providing basic government services to citizens. The water rights are being used in those operations and are not themselves directly generating the income or profit. Any income or profit associated with the use of the water rights is an indirect result of ownership of the rights. Therefore, the water rights would be an intangible asset subject to the provisions of this section.

In contrast, if the utility fund acquired the water rights with the intention of generating income through trading those rights, instead of intending to use them in its operations, the water rights would be excluded from the scope of this section under paragraph .123a of this section.

[GASBIG 2015-1, QZ.51.5]

.713-5 Q—Should the provisions of this section be applied to an intangible asset that upon acquisition or development is expected to be used both in

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operations and for the purpose of directly obtaining income or profit, for example, a trademark that will be used by a government in various venues as its emblem and to generate revenue through merchandise licensing agreements?

A—The applicability of the provisions of this section in this case depends on the primary purpose of the government in acquiring or creating the intangible asset. If the primary purpose of the intangible asset is to be used in operations, then the asset should be considered within the scope of this section. If the primary purpose of the intangible asset is to directly obtain income or profit, then the asset would meet the scope exclusion in paragraph .123a of this section and, therefore, would not be subject to the provisions of this section. To assist in determining the primary purpose of the intangible asset, a government in exercising professional judgment may consider the amount of revenue that the intangible asset is expected to generate in comparison to the expected level of service capacity to be provided through its use in operations.

[GASBIG 2015-1, QZ.51.6]

.713-6 Q—Should an intangible asset acquired or created by a government with the intent to resell it be accounted for under the provisions of this section?

A—No. An intangible asset acquired or created with the intent that it be resold generally is acquired or created primarily for the purpose of directly obtaining income or profit. Therefore, these assets would not be subject to the provisions of this section based on the scope exclusion in paragraph .123a of this section.

[GASBIG 2015-1, QZ.51.7]

.713-7 Q—How should an intangible asset that meets the definition of an investment and, therefore, is not subject to the provisions of paragraphs .124–.137 of this section under paragraph .123a of this section be measured in the financial statements?

A—Footnote 26 of this section states that the accounting and financial reporting for intangible assets that meet the definition of investments generally should follow authoritative guidance for investments. Section I50 provides no fair value exceptions related to intangible assets; therefore, intangible assets that meet the definition of an investment should be reported at fair value.

[GASBIG 2016-1, Q4.72, as amended by GASBIG 2017-1, Q5.33]

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.713-8 Q—How should a governmental power utility record emissions credits granted to it?

A—If the emissions credits will be used in operations, there is no increase in service capacity and no asset should be recognized. If the emissions credits will be sold, they are intangible assets held for income or profit with a carrying value of zero, with gains recognized when sold. However, emissions credits held for sale that meet the definition of a derivative instrument should be reported as required by Section D40, “Derivative Instruments.”

[GASBIG 2015-1, QZ.51.37]

.714 Classification

.714-1 Q—Should all intangible assets be included in a single major class of capital assets for purposes of financial statement note disclosures?

A—If the types of intangible assets reported by a government differ in nature and usage, then they should not be reported collectively as a single major class of capital assets. For example, the nature and usage of patents differs from that of right-of-way easements such that they should not be aggregated in the same major class of capital assets. However, multiple types of intangible assets that have a similar nature and usage could be combined to form a major class of capital asset. For example, water rights, mineral rights, and timber rights might be combined to form a land use rights major class of capital assets. Additionally, a single type of intangible asset, for example, water rights or computer software, may be considered a major class of capital assets depending on its significance to the government’s total amount of capital assets.

[GASBIG 2015-1, QZ.51.29]

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.715 Recognition

- .715-1 Q—Should land use rights, such as water rights, timber rights, and mineral rights associated with property already owned by a government, be reported as intangible assets separate from the associated property?

A—No. Ownership of property comprises a “bundle of rights,” included within which are the rights to control the use of the property and to benefit from the property. Although the individual rights included in the bundle of rights of property are separable and intangible in nature, they collectively represent the ownership of a tangible asset—the associated property. Therefore, the value of the individual rights in the bundle of rights of property ownership should remain aggregated and reported as a tangible capital asset (land or property). Additionally, because these land use rights are considered part of the tangible capital asset (the associated property) and the property is reported at historical cost, the reported value of the property already includes consideration for all rights associated with the government’s ownership of that asset. In contrast, land use rights that were acquired in a transaction that did not involve acquiring the underlying property should be reported as an intangible asset (at historical cost), if they meet the description of an intangible asset.

[GASBIG 2015-1, QZ.51.30]

.716 Internally generated intangible assets

- .716-1 Q—At what level of detail should (a) the specific objective of a project to develop an intangible asset and (b) the nature of the service capacity that is expected to be provided by the intangible asset upon completion of the project be determined to meet the recognition criterion for internally generated intangible assets in paragraph .127 of this section?

A—Determination of the specific objective of the project to develop an intangible asset should be at a level that details the purpose or the function of the expected asset. For example, the specific objective of a research project at a medical university may be the development of a patent related to the creation of a new material for stitches formed from a combination of specific microfibers. Determination of the nature of service capacity expected to be provided by the intangible asset should, at a minimum, be at a broad

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qualitative level. For example, in the case of the project to develop a new stitch material discussed above, the nature of the service capacity could be the improvement of services provided to patients of the university's hospital. The nature of the service capacity does not have to be quantifiable, for example, in a number of service units.

[GASBIG 2015-1, QZ.51.9]

.716-2 Q—What are examples of evidence of a government's current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of an internally generated intangible asset as contemplated in the recognition criterion in paragraph .127c of this section?

A—Evidence that indicates that the recognition criterion for internally generated intangible assets in paragraph 8c has been met may include the following:

- Budgetary commitments for funding the project
- Reference to the project in strategic planning documents
- Commitments with external parties to assist in the creation of the intangible asset
- Internal assignments or the hiring of specific personnel to work on the project
- Efforts made to secure the government's legal rights to the results of the project (for example, the securing of trademark rights to prevent an emblem from being used by others inappropriately).

[GASBIG 2015-1, QZ.51.10]

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.717 Internally generated computer software

.717-1 Q—Should a government’s website be considered computer software for purposes of applying the provisions of this section?

A—Yes. Websites should be considered computer software. If the website meets the description of internally generated computer software, the outlays associated with its development should be accounted for based on the guidance in paragraphs .129–.134 of this section. (See Questions in paragraph .717 of this section about internally generated computer software; see Questions .713-8, .717-10, and .717-11 in this section about the measurement of commercially available computer software that is not considered internally generated.)

[GASBIG 2015-1, QZ.51.2]

.717-2 Q—A government is developing an enterprise resource planning (ERP) system with multiple modules, including procurement, human resources, and financial reporting. Each of these modules will be developed on an individual timetable and, as a result, will become operational at different points. Should the guidance in this section for reporting outlays associated with the development of internally generated computer software be applied to each individual module of the ERP system or, instead, to the ERP system as a whole?

A—The guidance for reporting outlays associated with the development of internally generated computer software in this section is based on the stages of software development. Generally, in the above circumstance, each module will have its own development cycle, particularly as it relates to application development-stage and post-implementation/operation-stage activities described in paragraph .129 of this section. Therefore, the guidance for internally generated computer software in this section should be applied for each individual module of the system rather than the system as a whole.

[GASBIG 2015-1, QZ.51.12]

.717-3 Q—What are examples of specific tasks that commonly are performed during the preliminary project stage of development of internally generated computer software?

A—The activities undertaken in the preliminary project stage generally drive toward determining a final approach for the computer software development project. Common examples of these activities are:

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- Making strategic decisions to allocate resources between alternative projects at a given point in time
- Determining the performance requirements for the computer software project—for example, through a user needs analysis
- Determining the systems requirements for the computer software project and that the technology needed to achieve performance requirements exists
- Exploring alternative means of achieving the specified performance requirements—for example, evaluating internal development of the computer software against procurement and modification of commercially available software
- Selecting a vendor if commercially available software is to be acquired
- Selecting a consultant to assist in the development or installation of the computer software.

[GASBIG 2015-1, QZ.51.13]

.717-4 Q—Paragraph .129 of this section states that data conversion activities should be considered activities of the application development stage of developing internally generated computer software only to the extent they are determined to be necessary to make the computer software operational, that is, in condition for use. What types of tasks would be considered data conversion activities, and in what instance may data conversion activities be considered necessary to make internally generated computer software operational?

A—Tasks that would be considered data conversion activities may include the purging or cleansing of existing data, conversion of data from the legacy system to the new system, and reconciliation of the data from the legacy system and the data in the new system. An example of an instance in which data conversion activities may be considered necessary to make internally generated computer software operational is a human resources system for which the effective processing of payroll transactions is dependent on the transfer of information, such as pay rates, payroll withholding data, and employee direct deposit information, from the legacy system. Conversely, a database system containing vendor information and performance feedback may be less reliant on converted legacy data to be considered operational because the data provided by such a system may be more informational in nature and not essential to undertaking current procurement transactions. Therefore, this database system may be considered operational prior to the completion of any data conversion. In this case, the data conversion

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activities should be considered part of the post-implementation/operation stage of development, and the associated outlays should be expensed as incurred.

[GASBIG 2015-1, QZ.51.14]

- .717-5 Q—Should the training of employees involved with developing internally generated computer software be considered an activity of the application development stage of developing internally generated computer software, generally resulting in the associated outlays being capitalizable?

A—No. Although the skills obtained by the employees through the training may facilitate the development of the computer software, the training itself does not further the development of the software and does not otherwise contribute to putting the software in condition for use. Therefore, this training should not be considered an activity of the application development stage, and the related outlays should be expensed as incurred.

[GASBIG 2015-1, QZ.51.15]

- .717-6 Q—A government enters into a licensing agreement for computer software that will be considered internally generated. The payments made by the government to the vendor under the agreement are for multiple components, including the use of the software, development of modifications to meet the government's requirements prior to being put into operation, training for users of the software, routine systems maintenance, and rights to future upgrades and modifications. How should this agreement be accounted for?

A—In this circumstance, the outlays associated with the agreement should be allocated among all of the individual elements, and those elements should be accounted for based on the applicable guidance in this section. For example, the outlays associated with the use of the software generally should be capitalized as part of the application development stage, and outlays associated with the training for users of the software and routine systems maintenance should be expensed as part of the post-implementation/operation stage of development.

[GASBIG 2015-1, QZ.51.16]

- .717-7 Q—Should outlays from business process reengineering activities that occur as a result of the development of internally generated computer software be included when determining the reporting of outlays associated with the development of the software?

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A—No. Although business process reengineering activities may occur as a result of the development of computer software or may be part of a broad project that also involves the development of computer software, these activities should not be considered part of the process to develop the computer software. Therefore, determining the appropriate accounting treatment for outlays associated with business process reengineering activities should be done separately from determining the recognition of outlays associated with developing computer software. Generally, outlays associated with business process reengineering activities should be expensed as incurred. A business process reengineering project may enhance a government's ability to provide service capacity; however, it constitutes a reorganization or redeployment of current resources, as opposed to the creation of a new resource in which service capacity is embodied. If a new resource was acquired as part of the business process reengineering activities, for example, a piece of equipment to carry out a new procedure, the outlays associated with the acquisition of that resource should be capitalized as an asset.

[GASBIG 2015-1, QZ.51.17]

- .717-8 Q—How should outlays associated with the internal modification of an existing computer software system that makes it able to interface with a new internally generated computer software system be reported?

A—Such outlays should be accounted for in accordance with paragraphs .130 and .131 of this section if the modification results in an increase in the functionality or efficiency of the existing computer software or an extension of the estimated useful life of that software. If the modification does not result in any of these outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.

Conversely, if the new computer system cannot accomplish its purpose without building the interface with the existing computer software, this cost would be deemed necessary to prepare the new computer software for use and would, therefore, be subject to capitalization as part of the new software application development stage. (See Question .717-10 in this section for further clarification.)

[GASBIG 2015-1, QZ.51.18, as amended by GASBS 96, ¶4]

- .717-9 Q—Should outlays incurred by a government associated with the successful defense of the legal rights embodied within an intangible asset, such as a trademark or a patent, be capitalized as part of the intangible asset?

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A—No. The successful defense of the legal rights embodied within an intangible asset only allows the asset to continue to be used during its originally established useful life. It does not extend the useful life of the intangible asset, nor does it add any capacity to the intangible asset. Therefore, such outlays should be expensed as incurred. However, outlays incurred to initially register an intangible asset similar to a trademark or patent generally should be capitalized.

[GASBIG 2015-1, QZ.51.20]

.717-10 Q—This section provides guidance for the treatment of outlays associated with data conversion and user training activities for internally generated computer software. Section S80 provides guidance for treatment of such outlays associated with subscription-based information technology arrangements. How should such outlays be accounted for when the activities are associated with the acquisition of computer software that is not considered internally generated and is not a subscription-based information technology arrangement?

A—The concept underlying the guidance for outlays associated with data conversion and user training involved in the development of internally generated computer software is that the cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use as described in paragraph .102 of this section. This concept applies similarly for computer software that is not considered internally generated. Outlays associated with data conversion activities should be capitalized as an ancillary cost of the acquired computer software only if those activities are determined to be necessary to make the software operational. Otherwise, such outlays should be expensed as incurred. Outlays associated with user training should not be considered an ancillary cost of acquired computer software, and, therefore, those outlays should be expensed as incurred.

[GASBIG 2015-1, QZ.51.22, as amended by GASBS 96, ¶3]

.717-11 Q— Associated with a purchased perpetual software license, a government has a maintenance contract with its software vendor under which it pays an annual fixed fee that covers all required maintenance and any minor unspecified upgrades issued during the year by the vendor. More significant upgrades to the software, such as an upgrade to a new version of the software, are not covered under this contract, and the government is charged for them separately. How should the government account for the outlays associated with the maintenance contract?

A—External modifications of purchased computer software should be capitalized if they result in an increase in functionality or efficiency of the computer software or an extension of the estimated useful life of the software. Therefore, conceptually, the outlays of the maintenance contract should be allocated between upgrades that result in one of the aforementioned outcomes

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(capitalizable) and all other upgrades and maintenance provided by the vendor (expensed as incurred). However, depending on the materiality of the outlays related to the unspecified upgrades, as a practical matter, a government may choose to establish a policy that all unspecified upgrades should be considered maintenance and, accordingly, expense the associated outlays as incurred.

[GASBIG 2015-1, QZ.51.23, as amended by GASBS 96, ¶4]

.717-12 Q—If a government was not required to retroactively report a computer software system at transition, should the government apply the provisions of this section to account for outlays associated with modifications of that computer software system performed subsequent to implementation?

A—Yes. As of the effective date of Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, the provisions should be applied to modifications of computer software regardless of whether the original software being modified has been reported as an asset in the financial statements.

[GASBIG 2015-1, QZ.51.35]

.718 Specific Amortization Issues

.718-1 Q—When should an intangible asset be considered to have an indefinite useful life?

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A—Paragraph .136 of this section states that an intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset that normally should be considered to have an indefinite useful life. An intangible asset should not be considered to have an indefinite useful life solely because the precise length of the period over which it will provide service (that is, its useful life) is unknown. For example, the precise length of the useful life of computer software may not be known; however, it is known that the software will become obsolete and need to be replaced at some future point—in other words, its useful life is limited or finite. This also is the case for most tangible capital assets because they eventually will become physically deteriorated, although the exact point at which they will cease providing service is unknown. A capital asset of this nature, whether tangible or intangible, should be depreciated or amortized over an estimate of its useful life. (See Question .702-21 in this section about how the useful life of capital assets, including intangible assets, may be estimated.)

[GASBIG 2015-1, QZ.51.24]

- .718-2 Q—Should a government begin to amortize an intangible asset if it is no longer considered to have an indefinite useful life?

A—Yes. Paragraph .136 of this section states that if changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should begin to be amortized. However, the asset first should be tested for impairment in accordance with the guidance in this section because a change in the expected duration of use of the intangible asset has occurred. The remaining carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset. This change should be accounted for as a change in accounting estimate similar to a change in the useful life of any type of capital asset.

[GASBIG 2015-1, QZ.51.26]

- .719 Accounting and Financial Reporting for Intangible Assets Using the ~~Current~~ Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting**

No questions assigned.

- .720 Capital Assets Acquired through Special Assessments**

No questions assigned.

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.721 Capital Assets Acquired through Grants, Contributions, or Other Nonexchange Transactions

.721-1 Q—The federal government often retains a reversionary interest in capital assets purchased by state and local governments with federal awards. Should state and local governments report these capital assets?

A—Yes. Although property records may indicate that the capital assets were acquired with federal funds and the federal government retains a reversionary interest in the salvage values of the assets, the state or local government is the party that uses the assets in its activities and makes the decisions regarding when and how the assets will be used and managed. The historical cost of these assets should be reported in the state or local government's statement of net position, and depreciation expense, if applicable, for these assets should be included in the expenses for the function that uses the assets.

[GASBIG 2015-1, Q7.9.7]

.722 Capital Assets Acquired through Capital Leases

No questions assigned.

.723 Capital Assets Resulting from Subscription-Based Information Technology Arrangements

No questions assigned

.724 Equipment and Facilities Used in Landfills

No questions assigned.

.725 Capital Assets Obtained through Public-Private and Public-Public Partnerships

No questions assigned.

.726 Bankruptcies

No questions assigned.

.727 Reporting General Infrastructure Assets at Transition to GASB Statement 34

Note: Phase 3 governments that have not retroactively reported all general infrastructure assets and phase 1 and 2 governments that have not retroactively reported all nonmajor infrastructure networks still are considered to be in transition. Paragraphs .726–.728 of this section are applicable in the years a government elects to retroactively capitalize these infrastructure assets.

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.727-1 Q—If a phase 3 government (total annual revenues of less than \$10 million in the first fiscal year ending after June 15, 1999) grows and its revenues increase to more than \$10 million after the implementation period was determined, would it then have to retroactively capitalize its infrastructure assets?

A—No. Governments that qualified as phase 3 governments are exempt from the requirement to retroactively apply the infrastructure reporting provisions. However, retroactive application is encouraged.

[GASBIG 2015-1, Q7.104.1]

.727-2 Q—A primary government qualified for phase 1 implementation and retroactively applied the major general infrastructure reporting provisions. If the primary government has a discretely presented component unit that qualified for phase 3 implementation, was that component unit also required to retroactively apply those infrastructure requirements?

A—No. The component unit would have been required to implement this section at the same time as the primary government, but the exemption provided to phase 3 governments in paragraph .145 of this section is not affected by the reporting requirements of the primary government.

[GASBIG 2015-1, Q7.104.2]

.727-3 Q—What provisions have been made to minimize the cost of reporting infrastructure assets?

A—Some of the provisions to minimize cost include:

- Several methods of estimating historical cost are permitted, including deflated current replacement cost and the use of bond documents and capital budgets (paragraphs .156 and .158 of this section). See Exercise 3 in nonauthoritative paragraph .904 of this section.
- Accumulated depreciation at transition may be calculated using weighted-average acquisition years (paragraph .156 of this section). See Exercise 4 in nonauthoritative paragraph .904 of this section.
- Although all governments are encouraged to report all infrastructure assets at the effective dates of Statement 34, phase 1 and 2 governments (paragraph .145 of this section) were permitted to defer retroactive reporting of infrastructure for four years. The smallest governments—phase 3 governments—are not required to capitalize infrastructure assets acquired prior to the implementation of Statement 34.

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- Required capitalization is limited to major general infrastructure assets as defined by footnote 30 of this section. See Question .729-8 in this section and Exercise 5 in nonauthoritative paragraph .904 of this section.
- The required retroactive capitalization period need not extend back earlier than years ending after June 30, 1980 (paragraph .152 of this section).
- Composite depreciation rates based on groupings of similar assets or classes of dissimilar assets are permitted (paragraph .161 of this section). See Exercise 1 in nonauthoritative paragraph .904 of this section.

[GASBIG 2015-1, Q7.104.5]

.727-4 Q—Paragraph .148 of this section indicates that governments may report networks of infrastructure assets in stages during transition as information becomes available. If a government develops its historical cost information for infrastructure assets in a different manner—by year of acquisition or by individual asset, for instance—may such infrastructure assets be recorded during transition as information is available?

A—No. Transition capitalization should be on a network basis, not on a year-by-year basis.

[GASBIG 2015-1, Q7.104.10]

.727-5 Q—Can a government selectively report portions of infrastructure networks that were acquired prior to the July 1, 1980, date? For example, if a government can determine the historical cost of infrastructure assets in its road network acquired since 1970, can it report those assets only, or would it then be required to determine the historical cost (or estimate those costs) for assets acquired since 1970 for all other infrastructure networks?

A—The 1980 date in paragraph .152 of this section is set as a minimum threshold for reporting infrastructure assets. Paragraph .164 of this section encourages reporting nonmajor networks, and Question 7.106.4 encourages reporting assets or portions of assets acquired prior to the 1980 date. Paragraphs .148 and .149 of this section indicate that partial reporting of infrastructure should be done on a network-by-network basis. For example, it would be permissible to report for the road network all assets acquired after 1970 and to report for the dam network only those assets acquired after 1980. It would not be permissible, however, to report the portion of the road or dam networks acquired after 1980 in one year, and then report the portion acquired between 1970 and 1980 in a subsequent year. (See Question .726-4 in this section.)

[GASBIG 2015-1, Q7.104.11]

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.727-6 Q—Can general infrastructure assets acquired in years ended before June 30, 1980, be capitalized? Can such assets be capitalized subsequent to the network or subsystem transition date?

A—The date is intended as a minimum starting point when reporting general infrastructure networks and subsystems at transition. Reporting general infrastructure acquired earlier is encouraged at transition but not required. Subsequent to transition, a government should not revise its capitalized amount for a network or subsystem to include assets acquired in years ended before June 30, 1980, if they were not included in the initial network capitalization. To do so would be reporting networks or subsystems on a year-by-year basis, which is not appropriate. (See Question .726-4 in this section.)

[GASBIG 2015-1, Q7.104.13]

.727-7 Q—Phase 3 governments are not required to retroactively report infrastructure, but they are encouraged to do so. If a phase 3 government has records to support some, but not all, of its infrastructure assets or has estimated the historical cost of some, but not all, of its infrastructure assets, can the government report those “retroactive” infrastructure assets?

A—A phase 3 government can report a network or networks of “retroactive” infrastructure without all infrastructure assets being required to be reported during its transition period. Phase 3 governments that have not retroactively reported all infrastructure networks are considered to be in transition. Paragraph 150 provides that in transition, “those networks for which information is available may be reported.” Additionally, a phase 3 government in transition is required to make the disclosures specified in paragraph .149 of this section. (See also Question .703-6 in Section 2300.)

[GASBIG 2015-1, Q7.104.15]

.727-8 Q—Although phase 3 governments are not required to retroactively report infrastructure, can they choose to retroactively report infrastructure in a future year? Is there a cutoff, such as the additional four years that phase 1 and 2 governments are accorded to retroactively report infrastructure, for retroactive reporting for phase 3 governments?

A—Phase 3 governments may choose at any time to retroactively report infrastructure. Paragraph 148 of Statement 34 encourages them to retroactively report infrastructure and does not place a time restriction on when this should occur. (See Question .726-7 in this section.)

[GASBIG 2015-1, Q7.104.16]

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.727-9 Q—A government that has adopted the requirements of Statement 34 in a prior year is retroactively reporting some of its general infrastructure in the current year. Is this reported as a current-year addition to general capital assets?

A—No. Retroactive reporting of infrastructure is presented as an adjustment of a prior period. Thus, beginning net position and any affected note disclosures, such as beginning balances in the schedule of changes in capital assets, are restated. Guidance that should be followed when comparative statements are presented is provided in paragraph 61 of Statement 62, as amended. (See Question .727-1 in Section 2250, “Additional Financial Reporting Considerations,” for additional discussion of that guidance.)

[GASBIG 2015-1, Q7.104.17]

.727-10 Q—Phase 1 and 2 governments are not required to retroactively report nonmajor infrastructure networks. If a phase 1 or 2 government has records to support some of its nonmajor infrastructure networks or has estimated the historical cost of some of its nonmajor infrastructure networks, can the government report those “retroactive” infrastructure assets?

A—Phase 1 and 2 governments can report nonmajor infrastructure networks subsequent to their initial transition if appropriate supporting documentation is available. For this purpose, a phase 1 or 2 government may be considered to be in transition subsequent to its required reporting of major general infrastructure. (See also Question .703-6 in Section 2300 and Question .726-9 in this section.)

[GASBIG 2015-1, Q7.104.18]

.728 Modified Approach for Reporting Infrastructure Assets

See also paragraph .703 of this section.

.728-1 Q—A government has had an asset management system in place for a particular infrastructure network for a number of years and has ~~made~~incurred significant ~~expenditures~~outflows of resources in the past few years to improve the condition of the network. The overall condition assessments for the network, on a scale of 0 to 100, are 50 for the second prior year, 60 for the prior year, and 70 for the current year. The government has established a minimum condition level of 70 for the network. Can the government use the modified approach for the network in the first year that the condition assessment is at the established condition level of 70, or should the government wait until there are 3

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condition assessments that demonstrate that the network is being preserved at the condition level established by management as stated in paragraph .106b of this section?

A—Consideration of three years of condition assessments was not intended to set an unreasonably high hurdle for those initially adopting the modified approach. Paragraph .150 of this section allows a government to use the modified approach if only one condition assessment is available. This paragraph is intended to mean that if only one condition assessment shows that the network is at the condition level established by management, the modified approach can be used.

[GASBIG 2015-1, Q7.20.8, as amended by GASBS XX, ¶127]

.728-2 Q—This section requires at least one complete condition assessment before the modified approach is permitted. Can the condition assessment be performed in the same year that the modified approach is adopted or the infrastructure acquired prior to the adoption of this section is reported?

A—Yes. The condition assessment need only be available and documented prior to reporting infrastructure assets using the modified approach.

[GASBIG 2015-1, Q7.105.1]

.728-3 Q—When implementing the modified approach, at least one condition assessment should be available. (See paragraph .150 of this section.) If a government's most recent condition assessment for an infrastructure asset was completed nearly three years prior to the date at which the modified approach is being adopted, including instances when infrastructure acquired prior to the adoption of this section is being reported, would this asset qualify for the modified approach?

A—Yes. Condition assessments should be completed within a three-year period.

[GASBIG 2015-1, Q7.105.2]

.728-4 Q—A government's condition assessment of a particular infrastructure network is two-thirds complete. May the government apply the modified approach?

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A—No. At least one complete condition assessment should be available.
(See paragraph .150 of this section.)

[GASBIG 2015-1, Q7.105.3]

.728-5 Q—Would a government that applies the modified approach for a subsystem or network of general infrastructure assets capitalize eligible capital assets acquired prior to the adoption of this section at estimated cost, adjusted for price-level changes, less accumulated depreciation?

A—No. If a subsystem or network of infrastructure assets will be reported using the modified approach, the assets are recorded at full estimated historical cost. Accumulated depreciation from the acquisition date to the transition capitalization date is not recorded.

[GASBIG 2015-1, Q7.105.4]

.728-6 Q—Paragraph .150 of this section states that a government can apply the modified approach as long as one complete condition assessment is available. Does this provision apply to a government that adopts the modified approach subsequent to the date when infrastructure was required to be retroactively reported?

A—Yes. The provisions of paragraph .150 apply to any transition to the modified approach, whether the modified approach is adopted when infrastructure is retroactively reported or at a subsequent date.

[GASBIG 2015-1, Q7.105.5]

.729 Initial Capitalization of General Infrastructure Assets

No questions assigned.

.730 Determining Major General Infrastructure Assets

.730-1 Q—Is title to an asset always equivalent to ownership?

A—For the purposes of this section, ownership is considered a collection of rights to “use and enjoy” property, including the right to transmit it to others. For assets held for public benefit, such as roads, the right to use and enjoy property includes the right to determine how the property is used. All rights may not be vested in a single entity. The term *title* is used to refer to the right to or ownership of an asset and is also used to refer to the evidence of such ownership. Title may be evidence of legal ownership; however, that ownership may be held for the entity’s own benefit or for the

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benefit of another entity. Generally, holding title to an asset equates to ownership, and the entity that holds title to an asset should report the asset in its financial statements. However, the facts and circumstances of the situation should be considered. There may be instances in which title is held by one entity, yet some rights of ownership are held by another entity. For example, the lessee reports a lease asset under a lease although the lessor holds title.

[GASBIG 2015-1, Q7.9.6, as amended by GASBS 87, ¶20]

- .730-2 Q—Footnote 31 of this section states that the government that has the primary responsibility for managing an infrastructure asset should report the asset. What is the significance of ownership to the responsibility for managing and maintaining an asset?

A—The guidance in footnote 31 applies only in instances when ownership is unclear. Ownership of land and buildings, for example, can usually be clearly determined through review of appropriate documents, such as deeds, easements, and contracts. Ownership of infrastructure associated with land, such as roads, sidewalks, and sewers, may not be as clearly documented. In such cases, the government with primary responsibility for managing the asset should report the asset.

[GASBIG 2015-1, Q7.12.2]

- .730-3 Q—A city ordinance requires property owners to repair the sidewalks adjacent to streets when needed and to permit them to be used as a public walkway. The ownership of the sidewalks is unclear. Should the city report these sidewalks as infrastructure?

A—No. Footnote 31 of this section states that in cases when ownership is unclear, a government should report a capital asset when it has responsibility for managing (often, primarily responsible for maintenance) that asset. The property owners have responsibility for maintaining sidewalks adjacent to streets. They decide what maintenance will be performed, and when. They are financially responsible for maintenance, including potential liabilities for failure to perform maintenance. The city's actions to establish regulations governing minimum standards for sidewalks should not be considered taking responsibility for managing the sidewalk. Therefore, the city should not report the sidewalks.

[GASBIG 2015-1, Q7.12.3]

- .730-4 Q—If one government is responsible for maintaining a capital asset and a different government is responsible for replacing the same asset, which government should report the capital asset?

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A—When ownership is unclear, the government with the responsibility for managing the asset should report it. In this circumstance, the government that maintains the asset is the one that has responsibility for managing the asset and, therefore, should report the asset.

[GASBIG 2015-1, Q7.12.4]

.730-5 Q—A county constructed a road financed by issuance of county bonds and then turned the road over to the state for managing all future maintenance. Which government reports the road as an infrastructure asset? Which government reports the bonds payable?

A—If there is evidence as to which government owns the road, that government should report it. In many circumstances, however, ownership of roads is not clearly evidenced by deed or other legal document that stipulates ownership. For example, title to the land under the road may be held by the owner of the adjoining property, but there is no equivalent title for the road itself. When ownership is unclear, the government with primary responsibility for managing an infrastructure asset should report the asset. In this example, because the state is responsible for maintenance, it would report the asset. However, the county would continue to report the bonds payable because it is legally obligated for repayment.

[GASBIG 2015-1, Q7.12.14]

.730-6 Q—If both the state and a local government pay jointly toward the construction of a bridge and ownership of the bridge is unclear, what should be capitalized by the locality?

A—When ownership is unclear, the government with primary responsibility for managing the asset should report it. If the local government was solely responsible for maintaining the bridge at the conclusion of its construction, for example, the local government would report the entire historical cost of the bridge (that is, the costs incurred by both the state and the local government).

[GASBIG 2015-1, Q7.12.15]

.730-7 Q—Can a government selectively report portions of infrastructure networks that were acquired prior to the July 1, 1980, date? For example, if a government can determine the historical cost of infrastructure assets in its road network acquired since 1970, can it report those assets only, or would it then be required to determine the historical cost (or estimate those costs) for assets acquired since 1970 for all other infrastructure networks?

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A—The 1980 date in paragraph .152 of this section is set as a minimum threshold for reporting infrastructure assets. Paragraph .154 of this section encourages reporting nonmajor networks, and Question 7.106.4 encourages reporting assets or portions of assets acquired prior to the 1980 date. Paragraphs .148 and .149 of this section indicate that partial reporting of infrastructure should be done on a network-by-network basis. For example, it would be permissible to report for the road network all assets acquired after 1970 and to report for the dam network only those assets acquired after 1980. It would not be permissible, however, to report the portion of the road or dam networks acquired after 1980 in one year, and then report the portion acquired between 1970 and 1980 in a subsequent year. (See Question .728-4 in this section.)

[GASBIG 2015-1, Q7.104.11]

.730-8 Q—What are the thresholds for determining major general infrastructure assets?

A—For networks, the threshold is 10 percent of general capital assets reported in the first fiscal year ending after June 15, 1999. For subsystems, the threshold is 5 percent of general capital assets reported in that period. This section does not specify the use of a single method—historical cost or net book value—of general capital assets. It should be noted that general capital assets do not include proprietary or fiduciary fund capital assets.

[GASBIG 2015-1, Q7.106.1]

.730-9 Q—Does the total cost of general capital assets that is used to calculate the threshold for major general infrastructure assets in paragraph .154 of this section include the costs of infrastructure *to be capitalized*?

A—No. The threshold for determining major infrastructure assets is based upon the total reported cost of all general capital assets before any previously unrecorded infrastructure has been capitalized.

[GASBIG 2015-1, Q7.106.2]

.730-10 Q—May the determination of major infrastructure networks and subsystems be made using preliminary cost estimates?

A—Yes. Paragraph .154 of this section indicates that the determination of major general infrastructure assets is made using costs or estimated costs. (See Exercise 5 in nonauthoritative paragraph .904 of this section.)

[GASBIG 2015-1, Q7.106.3]

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.730-11 Q—The determination of major general infrastructure assets is at the network or subsystem level. If only a portion of a network or subsystem was acquired since 1980 and no records are available to estimate the historical cost of the entire network or subsystem, how does one determine whether the asset is a major asset?

A—Only the preliminary estimate of the cost of the portion of the network or subsystem acquired or receiving major improvements in fiscal years ending after June 30, 1980, needs to be compared to the criteria for major general infrastructure assets. Retroactive reporting of assets or portions of assets acquired prior to that period is encouraged, but not required.

[GASBIG 2015-1, Q7.106.4]

.731 Establishing Capitalization at Transition

See also Question .726-7 in this section regarding retroactive reporting of infrastructure by phase 3 governments.

.731-1 Q—Could a government record capital assets, including infrastructure, in an amount equal to the balance of general long-term debt at the transition date?

A—Generally, no. Long-term debt is often issued to finance the purchase of capital assets, and the total amount of debt outstanding at a transition date may be a starting point for estimating the historical cost of those capital assets. The original issuance amount, rather than the balance outstanding at a transition date, may be a better estimate of original cost in certain cases.

[GASBIG 2015-1, Q7.104.9]

.731-2 Q—When retroactively reported, should infrastructure assets be capitalized at net book value?

A—No. Capital assets, including retroactively reported infrastructure, may be reported net on the face of the statement of net position. However, gross historical cost or estimated historical cost and accumulated depreciation from the acquisition date to the date at which the assets are being reported should be disclosed in the notes to the financial statements.

[GASBIG 2015-1, Q7.107.1]

1400.737

General Principles

.732 Estimated Historical Cost—Current Replacement Cost

.732-1 Q—If determining historical cost of general infrastructure assets is not practical because of inadequate records, how may estimated historical cost be calculated using current replacement cost techniques?

A—A government may estimate the historical cost of general infrastructure assets by calculating the current replacement cost of a similar asset and deflating this cost through the use of price-level indexes to the acquisition year (or estimated acquisition year if the actual year is unknown). There are a number of price-level indexes that may be used, both private- and public-sector, to remove the effects of price-level changes from current prices. Accumulated depreciation would be calculated based on the deflated amount, except for general infrastructure assets reported according to the modified approach. (See Exercise 3 in nonauthoritative paragraph .904 of this section for an example of estimating historical cost using deflated replacement cost.)

[GASBIG 2015-1, Q7.107.5]

.732-2 Q—Paragraph .156 of this section indicates that roads and highways may be capitalized in transition using lane-miles multiplied by a standard cost. May a similar approach be used for other infrastructure assets?

A—Yes. For example, sidewalks could be estimated using square footage, curbs using lineal footage or miles, or bridges using the span footage.

[GASBIG 2015-1, Q7.107.7]

.732-3 Q—If deflated current replacement cost is used to estimate the historical cost of infrastructure, what considerations should be made with respect to changes to applicable codes, standards, and ordinances that have occurred since the acquisition date?

A—The examples of estimating historical cost using deflated replacement cost included in paragraph .156 of this section and in Exercise 3 in nonauthoritative paragraph .904 of this section assume that changes in construction methods or specifications from acquisition date to present are not significant. If these changes are significant, appropriate adjustments should be made in the estimation of historical cost.

[GASBIG 2015-1, Q7.107.8]

Reporting Capital Assets

1400.740

.733 Estimated Historical Cost from Existing Information

.733-1 Q—If determining the actual historical costs of general infrastructure assets is not practical because of inadequate records, what alternatives are there to establish initial capitalizations from existing information?

A—Potential sources of estimates of historical costs include bond documents, capital outlay and capital projects fund ~~expenditures~~outflows of resources in prior financial reports, engineering documents, capital budgets, and evidence of contract awards, such as those found in minutes of the governing body's meetings.

[GASBIG 2015-1, Q7.107.6, as amended by GASBS XX, ¶27]

.734 Methods for Calculating Depreciation

.734-1 Q—What are examples of “any established depreciation method”?

A—Any rational and systematic method may be used. Some of the common categories of depreciation methods include:

- The straight-line method
- Decreasing-charge methods, which include declining-balance, double-declining-balance, and sum-of-the-years'-digits, among others
- Increasing-charge methods
- Unit-of-production/service methods, which allocate the depreciable cost of an asset over its expected output.

[GASBIG 2015-1, Q7.13.2]

.735 Composite Methods

.735-1 Q—A government reports its rural secondary roads as a subsystem. This subsystem includes traffic control devices, signs, lighting, roadway subsurface foundations, roadway surfaces, and bridges with a span of 50 feet or less. Depreciation is calculated on a composite basis for the entire subsystem. What is the effect on capital asset balances when a major length of roadway is removed and replaced?

A—Composite depreciation assumes that all assets are retired at the end of their useful lives, and therefore no gain or loss is recorded. The cost of the replaced road would be removed from both the capital asset account and the accumulated depreciation account. Cost methods commonly used with composite depreciation include average cost, first-in-first-out, and specific identification. The replacement roadway would be added to the capital account of the composite group and be depreciated using the composite

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rate. (See Exercise 2 in nonauthoritative paragraph .904 of this section for an example of journal entries for assets accounted for using the composite depreciation method.)

[GASBIG 2015-1, Q7.15.2]

.736 Impairment of Capital Assets

No questions assigned.

.737 Definition of Impairment

.737-1 Q—Do the provisions of paragraphs .165–.181 of this section apply to capital assets accounted for using the modified approach?

A—Yes. The guidance applies to all capital assets. (See also Questions .736-2 and .747-1 in this section.)

[GASBIG 2015-1, QZ.42.1]

.727-2 Q—Should an impairment loss be reported for capital assets accounted for using the modified approach that have incurred physical damage?

A—No. As a part of meeting the requirements to use the modified approach, management has made a commitment to maintain the network or subsystem at an established condition level. If a portion of the network or subsystem suffers physical damage, management is obligated to restore that portion to the established condition. Consequently, physical damage to capital assets accounted for using the modified approach is considered temporary in nature. (See Question .703-18 in this section.)

[GASBIG 2015-1, QZ.42.2]

.738 Assessment of Impairment

.738-1 Q—How should the impairment of an intangible asset be determined?

A—Similar to other capital assets, the provisions of paragraphs .165–.181 of this section should be applied to determine whether an intangible asset is impaired and, if so, the measurement of any impairment loss to be recorded. The provisions of paragraphs .165–.181 also should be followed for other financial reporting aspects related to impairment, including presentation and disclosure and accounting for insurance recoveries.

[GASBIG 2015-1, QZ.51.27]

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1400.745

.739 Identification of Events or Changes in Circumstances That May Indicate Impairment

No questions assigned.

.740 Indicators of Impairment

.740-1 Q—A school district decides to construct a new school in a rapidly developing area. Enrollment is initially projected at 1,000 students and is expected to grow to 2,500 students in 5 to 7 years. The planning, development, and construction occur over a four-year period. The school opens with only a 600-student enrollment and 5 years later reaches an enrollment of only 800 students. The less-than-expected enrollment resulted from:

- a. Development in the area around the school including more commercial development and less residential development than originally projected
- b. Expansion of private/nonpublic education institutions as a result of the recent availability of public education vouchers for private/nonpublic education institutions.

Should the school be evaluated for impairment? Should the situation be considered a temporary impairment?

A—Lower than projected enrollment at a new school does not indicate impairment. Paragraph .170 of this section states that a change in demand for the services of a capital asset is not considered an indicator of impairment. Change in demand may be a change from prior levels of demand or projected levels of demand for a service, as in this school example. Because the situation does not present an indicator of impairment and is therefore not an impairment, further assessment as to whether this situation would be considered a temporary impairment is not necessary. Furthermore, if the facts of the situation were different and included an indicator of impairment such as management closing a wing of the school as in Question .739-2 in this section, and if the subsequent test of impairment revealed the asset was impaired, the impairment would not be considered a temporary impairment because no evidence regarding reversal of the present situation was available.

[GASBIG 2015-1, QZ.42.8]

.740-2 Q—If one wing of the school described in Question .739-1 in this section is closed and will not continue to be used, should the school be evaluated for impairment? Further, if one wing is closed and it can be sold or leased to the state or a commercial enterprise at carrying value or more, should the school district report an impairment loss?

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A—When the school district closes one wing of the school, a change in manner or expected duration of use has occurred, and the school should be evaluated for impairment. Because the wing of the school will not continue to be used, it should be reported at the lower of carrying value or fair value. If the fair value of the capital asset is above its allocated carrying value, as in the example above, no impairment loss would be reported.

[GASBIG 2015-1, QZ.42.9, as amended by GASBS 87, ¶20]

.740-3 Q—A new regulation regarding coal-fired generating facilities is approved that requires either that only low-sulfur coal be burned or that certain scrubbers be installed. The regulation does not prohibit continued operation of the facilities; however, the additional costs of low-sulfur coal or of the installation of scrubbers may make it no longer economically feasible to continue to operate a facility. Is adoption of this regulation an indicator of impairment for coal-fired generating facilities?

A—No. Adoption of the regulation is not an indicator of impairment for coal-fired generating facilities, because the regulation does not directly reduce the service utility of these facilities. However, if management decides to close a facility to avoid the costs of complying with the regulation, the decision to close the facility would be an indicator of impairment and would precipitate an impairment evaluation.

[GASBIG 2015-1, QZ.42.10]

.740-4 Q—What are examples of circumstances that indicate that an intangible asset may be impaired?

A—Other than evidence of physical damage, each of the items provided in paragraph .169 of this section could indicate that an intangible asset has been impaired. Impairment of an intangible asset often will be indicated by a change in duration of use of the asset. One means by which this can occur is through a change in the manner or duration of use of an associated tangible asset. For example, a government's rights to capacity at a water treatment plant may experience a change in duration of use if a decision is made to shut down the plant earlier than originally expected. A change in duration of use of an intangible asset also may occur if there are changes in the terms or status of the contract from which the asset is created, for example, if the length of a government's contract for water rights is renegotiated from 40 to 20 years. A change from an indefinite useful life to a finite useful life, for example, in the case of a government that, because of environmental concerns, intends by a future date to cease using land use rights that were acquired under a contract with an unlimited term, also is considered a change in duration of use.

Reporting Capital Assets

1400.748

Impairment of an intangible asset may be indicated by evidence of obsolescence, for example, in the case of computer software or a patent for which new technology has limited its usefulness. Impairment also may be indicated by the enactment or approval of laws or regulations or other changes in environmental factors, for example, a change in patent law that affects the legal rights of patent holders. An indication that an internally generated intangible asset in development has been impaired is a stoppage in the development process. Such a stoppage may be the result of any number of events, including a change in the priorities of management in relation to the intangible asset or a change in view regarding the technological or technical feasibility of the project.

[GASBIG 2015-1, QZ.51.28]

.741 Impairment Test

No questions assigned.

.742 Measurement of Impairment

No questions assigned.

.743 Capital Assets That Will Continue to Be Used by the Government

.743-1 Q—Should the amount of an impairment loss calculated using the restoration cost method be recalculated in subsequent years if estimated amounts used in calculating the impairment loss in the year of impairment are significantly different from actual amounts incurred in a subsequent year due to changes in price levels? For example, if the estimated restoration cost is significantly higher than the actual restoration cost incurred in a subsequent year, should the amount of impairment loss be recalculated and adjusted?

A—No. Impairment loss amounts should not be revised in subsequent years due to price level changes. The restoration cost method uses an estimate of both the restoration cost and the replacement cost (or a cost index). Price level changes would affect both estimates and, as such, would not affect the resulting ratio, which is the basis for the calculation of the impairment loss.

[GASBIG 2015-1, QZ.42.13]

1400.749

General Principles

.744 Capital Assets That Will No Longer Be Used by the Government and Construction Stoppage

No questions assigned.

.745 Reporting Impairment Losses

.745-1 Q—Paragraph .177 of this section provides guidance on how the loss from the impairment of a capital asset should be reported. Which capital asset accounts should be adjusted when the loss is reported?

A—The effect of an impairment can be included in the capital asset accounts in either of two ways. First, the accumulated depreciation account may be increased by the amount of the loss. Second, both the capital asset historical cost account and related accumulated depreciation account could be decreased proportionately such that the *net* decrease equals the impairment loss. In the former circumstance, the impairment is treated as if additional years of useful life of the capital asset had been used up through the impairment. In the latter circumstance, the impairment is treated like a disposal of a portion of the capital asset.

[GASBIG 2015-1, QZ.42.12]

.746 Permanent and Temporary Impairments

No questions assigned.

.747 Capital Assets That Do Not Meet the Impairment Test

No questions assigned.

.748 Disclosure of Idle Impaired Capital Assets

.748-1 Q—For capital assets accounted for using the modified approach, should the requirement to disclose the carrying amount of idle impaired capital assets be applied to individual components of the network or subsystem or to the network or subsystem as a whole?

A—Governments generally view infrastructure assets accounted for using the modified approach from a network or subsystem perspective, rather than as individual assets. Accordingly, such individual assets accounted for using the modified approach that are impaired and idle generally would not

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1400.754

require disclosure. If the network or subsystem accounted for using the modified approach is impaired and idle, disclosure is required.

[GASBIG 2015-1, QZ.42.3]

.749 Insurance Recoveries

.749-1 Q—Federal Emergency Management Agency (FEMA) grant funds are similar to insurance recoveries in that both compensate governments for certain losses incurred. Should FEMA grants be accounted for in accordance with the requirements for insurance recoveries in paragraph .181 of this section?

A—No. FEMA grants are nonexchange transactions; should be reported as program revenue in the government-wide financial statements ~~and as revenue~~, as inflows of short-term financial resources in governmental fund financial statements ~~(, and as nonoperating revenue in enterprise and internal service funds), fund financial statements~~; and should not be netted against any associated impairment loss. Insurance recoveries are netted with associated impairment losses because the insurance recovery is received in accordance with an insurance contract in effect prior to the impairment event. With FEMA grants, awards are provided after the impairment event occurs only if a government applies for and meets the applicable grant requirements. The award constitutes a separate transaction from the impairment event.

[GASBIG 2015-1, QZ.42.4, as amended by GASBS XX ¶22]

.749-2 Q—Does the guidance on insurance recoveries in paragraph .181 of this section and paragraph .125 of Section C50 apply to situations in which an insurance policy other than the government's insurance policy covers the loss? For example, if a freight company's truck hits and damages a government's bridge, would recovery of the loss through the truck owner's insurance policy be accounted for in accordance with paragraph .181 of this section and paragraph .125 of Section C50?

A—Yes, the guidance in those paragraphs applies to any loss covered by insurance, whether or not the policyholder is the government.

[GASBIG 2015-1, QZ.42.11]

.749-3 Q—Paragraph .177 of this section requires that impairment losses be reported as a program or operating expense, ~~special item~~, or ~~extraordinary~~ unusual or infrequent item, as appropriate. Paragraph .181 of this section requires that the impairment loss be reported net of the associated insurance recovery recognized in the year. If the insurance recovery is greater than the impairment loss, how should the net gain be reported?

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A—For impairments that are ~~special—items~~unusual or ~~extraordinary~~infrequent items, the net gain would be reported in the same manner as a net loss. For impairment losses that would be considered program or operating expenses in the absence of any insurance recovery, the net gain should be reported as a program revenue (in the charges for services classification) or operating revenue, as appropriate. It would not be appropriate to report the net gain as a negative expense.

[GASBIG 2015-1, QZ.42.14, as amended by GASBS XX, ¶10]

.749-4 Q—Should insurance recoveries related to cleanup costs for storm damage, such as removal of downed trees and other debris, be netted against the related cleanup ~~expenditures~~outflows of resources in governmental fund financial statements?

A—Insurance recoveries that are related to cleanup of storm damage and are realized, or are measurable and available, in the same year as the related cleanup ~~expenditures~~outflows of resources should be netted against those ~~expenditures~~outflows of resources. Insurance recoveries that are related to cleanup of storm damage and are recognized in subsequent periods should be reported as ~~other financing sources or extraordinary~~outflows of resources from current activities or unusual or infrequent items, as appropriate.

[GASBIG 2019-1, Q4.8, as amended by GASBS XX, ¶10 and ¶27]

.749-5 Q—Paragraph .181 of this section states that “if not otherwise apparent in the financial statements, the amount and financial statement classification of insurance recoveries should be disclosed.” Does Section P40 supersede that disclosure requirement for insurance recoveries that reduce the measurement of pollution remediation expense and liabilities?

A—No. Paragraph .123c of Section P40 requires disclosure of recoveries that reduce the measurement of pollution remediation liabilities. However, that disclosure does not meet the requirements of this section for two reasons. First, it does not require segregation of insurance recoveries from recoveries from other responsible parties. Second, it is a disclosure of expected recoveries rather than current-year recoveries.

[GASBIG 2015-1, QZ.49.11]

.750 Accounting for Impairments of Regulatory Assets

No questions assigned.

Reporting Capital Assets

1400.803

AICPA LITERATURE CLEARED BY THE GASB

Capital Asset Impairment Considerations for Gaming Entities

.801 For governmental gaming entities, the following are factors that may be indicators of impairment (assuming such events differ from the gaming entity's expectations at the time the asset was acquired or built):

- Change in legislation limiting or prohibiting the type or nature of games allowed, such as prohibiting a certain type of game (this may be an indicator of impairment of specific games or machines rather than the gaming entity as a whole)
- Change in legislation limiting the amount of time the gaming entity is allowed to be open.

[AICPA GG 2011, ¶12.14]

.802 Examples of changes in the manner or expected duration of use of a capital asset that may be indicators of impairment for governmental gaming entities include the following:

- Relocation of gaming operations from a cruising riverboat to a land-based casino
- Abandonment of an entertainment facility within a casino.

[AICPA GG 2011, ¶12.15]

.803 The following circumstances are not indicators of impairment because although they may result in reduced profits or cash flows, they do not suggest that the service utility of the capital asset has significantly declined:

- Increase in gaming tax rates or revenue sharing obligations to states
- Legalization of gaming in a nearby location
- Change in regulation significantly increasing the number of gaming licenses in the entity's market
- Increased competition resulting from significant changes in legislation or regulations, for example, permitting other entities to conduct a certain type of game that would result in other entities having competitive advantages
- Increased competition from the introduction of competing alternative gaming venues, such as racinos or other casinos, in a nearby location
- Change in legislation (a) limiting the amount of time individual players may spend in the gaming entity, (b) limiting the amount that an individual player may lose in a given time period, or (c) limiting or prohibiting the nature and extent of certain nongaming behavior and activities undertaken by players in the gaming entity, such as smoking cigarettes or drinking alcohol
- An observable decline in travel and tourism resulting from economic, political, social, or other reasons.

[AICPA GG 2011, ¶12.16]

REPORTING LIABILITIES

SECTION 1500

Sources: NCGAS 1, GASBS 6, GASBS 34, GASBS 38, GASBS 49, GASBS 54,
GASBS 62, GASBS 88, GASBS 91, GASBS XX, GASBI 1, ~~GASBI 6~~,
GASBIG 2015-1, AICPA SLG 2002

See also: Section 1600, "Basis of Accounting"
Section 2300, "Notes to Financial Statements"
Section 2500, "Segment Information"
Section A10, "Certain Asset Retirement Obligations"
Section B50, "Bond, Tax, and Revenue Anticipation Notes"
Section C50, "Claims and Judgments"
Section C60, "Compensated Absences"
Section C65, "Conduit Debt Obligations"
Section D30, "Demand Bonds"
Section L10, "Landfill Closure and Postclosure Care Costs"
Section L20, "Leases"
Section P20, "Pension Activities—Reporting for Benefits Provided
through Trusts That Meet Specified Criteria—Defined Benefit"
Section P21, "Pension Activities—Reporting for Benefits
Provided through Trusts That Meet Specified Criteria—Defined
Contribution"
Section P22, "Pension Activities—Reporting for Benefits Not
Provided through Trusts That Meet Specified Criteria—Defined
Benefit"
Section P24, "Pension Activities—Reporting for Benefits Not
Provided through Trusts That Meet Specified Criteria—Defined
Contribution"
Section P40, "Pollution Remediation Obligations"
Section P50, "Postemployment Benefits Other Than Pensions—
Reporting for Benefits Provided through Trusts That Meet
Specified Criteria—Defined Benefit"
Section P51, "Postemployment Benefits Other Than Pensions—
Reporting for Benefits Provided through Trusts That Meet
Specified Criteria—Defined Contribution"
Section P52, "Postemployment Benefits Other Than Pensions—
Reporting for Benefits Not Provided through Trusts That Meet
Specified Criteria—Defined Benefit"
Section P54, "Postemployment Benefits Other Than Pensions—
Reporting for Benefits Not Provided through Trusts That Meet
Specified Criteria—Defined Contribution"
Section S40, "Special Assessments"
Section T25, "Termination Benefits"
Section Bn5, "Bankruptcies"

**Statement of Principle
Accounting for Long-Term Liabilities**

A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds (including fiduciary component units) should be reported in the statement of fiduciary net position. Long-term debt issued for short-term purposes should be reported as liabilities in governmental funds and in the governmental activities column in the government-wide statement of net position. All other unmatured general long-term liabilities of the governmental unit should not be reported as liabilities in governmental funds but should be reported in the governmental activities column of the government-wide statement of net position. [NCGAS 1, ¶32 ~~and ¶42~~, as amended by GASBS 34, ¶169, ~~and~~ GASBS 63, ¶18, ~~and~~ GASBS XX, ¶12; NCGAS 1, ¶42, as amended by GASBS 34, ¶169 and GASBS 63, ¶18; GASBS 34, ¶16, as amended by GASBS 84, ¶15; GASBS 34, ¶30, ~~¶82~~, ¶92, and ¶108, as amended by GASBS 63, ¶18; GASBS 34, ¶82, as amended by GASBS 63, ¶18 and GASBS XX, ¶20]

Reporting Long-Term Liabilities

.101 Section 2200, "Comprehensive Annual Financial Report," requires general purpose and many special-purpose governments to provide basic financial statements that include government-wide and fund financial statements. Because of the distinctive nature of fund financial statements and fund accounting requirements, some long-term liabilities should be reported in fund financial statements, while some should be reported only in the governmental activities column in the government-wide statement of net position. [NCGAS 1, ¶33, as amended by GASBS 34, ¶16; GASBS 34, ¶82, as amended by GASBS 63, ¶18]

Fund Liabilities

.102 Bonds, notes, and other long-term liabilities (for example, for leases, pensions, claims and judgments, compensated absences, termination benefits, landfill closure and postclosure care and other asset retirement obligations, pollution remediation obligations, and similar commitments) directly related to and expected to be paid from proprietary funds and fiduciary funds should be included in the accounts of such funds.¹ These are specific fund liabilities, even though the full faith and credit of the governmental unit may be pledged as further assurance that the liabilities will be paid. Too, such liabilities may constitute a mortgage or lien on specific fund properties or receivables. Long-term liabilities directly related to and expected to be paid

¹Section S40, paragraph .123, discusses circumstances in which special assessment debt should be recorded as an enterprise fund liability.

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from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds (including fiduciary component units) should be reported in the statement of fiduciary net position. Liabilities arising from interfund activities (Section 1800, "Classification and Terminology," paragraph .102) do not constitute general long-term liabilities and therefore should be reported in governmental funds. [NCGAS 1, ¶42, as amended by NCGAS 4, ¶14, NCGAI 9, ¶12, GASBS 6, ¶13 and ¶23, GASBS 10, ¶53, GASBS 16, ¶6, GASBS 18, ¶7, GASBS 47, ¶3, GASBS 49, ¶9, GASBS 62, ¶34-¶43 and ¶96-¶113, GASBS 63, ¶8, GASBS 83, ¶8 and ¶24, GASBS 87, ¶20, and GASBI 1, ¶13; GASBS 34, ¶6, as amended by GASBS 84, ¶5; GASBS 34, ¶30, ¶82, ¶92, and ¶108, as amended by GASBS 63, ¶8; GASBS 34, ¶81, as amended by GASBS 87, ¶20]

General Long-Term Liabilities

.103 All other unmatured long-term indebtedness of the government with the exception of long-term debt² issued for short-term purposes, including certain special assessment debt discussed in paragraph .119 below, is *general long-term debt* and should not be reported as liabilities in governmental funds but should be reported only in the governmental activities column in the government-wide statement of net position. (However, long-term demand bonds may be required to be reported as fund liabilities in certain circumstances. See Section D30.) General long-term debt is the *unmatured principal* of bonds, warrants, notes, special assessment debt for which the government is obligated in some manner, or other forms of noncurrent or long-term *general obligation* debt that is not a specific liability of any proprietary fund or fiduciary fund. General long-term debt is not limited to liabilities arising from debt issuances *per se*, but may also include ~~noncurrent~~ liabilities on leases, compensated absences, claims and judgments, pensions, termination benefits, landfill closure and postclosure care and other asset retirement obligations, pollution remediation obligations, and other commitments ~~that are not current liabilities properly recorded in governmental funds~~. [NCGAS 1, ¶43, as amended by NCGAS 4, ¶14, NCGAI 9, ¶12, GASBS 6, ¶17, GASBS 16, ¶13, GASBS 17, ¶6, GASBS 18, ¶10, GASBS 47, ¶3, GASBS 49, ¶9 and ¶24, GASBS 62, ¶34-¶43 and ¶96-¶113, GASBS 63, ¶8, GASBS 68, ¶20, ¶48, ¶83, ¶92, ¶97, and ¶120, GASBS 73, ¶25, ¶47, ¶68, and ¶78, GASBS 83, ¶8 and ¶24, GASBS 87, ¶20, ¶35, and ¶36, GASBS XX, ¶12 and ¶2015, and GASBI 1, ¶10 and ¶12; GASBS 34, ¶82, as amended by GASBS 63, ¶8 and GASBS XX, ¶20]

~~.104 The general long-term debt of a state or local government is secured by the general credit and revenue-raising powers of the government rather than by the assets acquired or specific fund resources. Further, just as general capital assets do not represent financial resources available for appropriation and expenditure, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources. To include it as a governmental fund liability would be misleading and dysfunctional to the current period management control (for example, budgeting) and accountability functions. [NCGAS 1, ¶44, as amended by GASBS 34, ¶80]. Superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶21~~

²See paragraph .124 of Section 2300 for the definition of *debt*. [GASBS XX, fn12]

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Statement of Net Position Classification

~~105.104~~ Paragraphs ~~1056-1145~~ apply only when a government is preparing a classified statement of net position for accounting and financial reporting purposes. Paragraphs ~~1056-1145~~ also apply to disclosures made about maturities of obligations reported in both classified and unclassified statements of net position. [GASBS 62, ¶29, as amended by GASBS 63, ¶8]

Current Liabilities

~~106.105~~ The term *current liabilities* is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a category in the statement of net position, the classification is intended to include obligations for items that have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in providing services; collections received in advance of the performance of services;³² and debts that arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, and royalties. Other liabilities whose regular and ordinary liquidation is expected to occur within one year also are intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be used~~expended~~ within one year under sinking fund provisions, and certain obligations arising from the collection or acceptance of cash or other assets for the account of third parties. The current liability classification also is intended to include obligations that, by their terms, are due on demand or will be due on demand within one year from the date of the financial statements,³⁴ even though liquidation may not be expected within that period.⁴⁵ It also is intended to include long-term obligations that are or will be callable⁵⁶ by the creditor either because the debtor's violation of a provision⁶⁷ of the debt agreement at the date of the financial statements makes the obligation callable or because the violation, if not cured within a specified grace period,

³²Examples of such current liabilities are obligations resulting from advance collections on ticket sales, which normally will be liquidated in the ordinary course of operations by the delivery of services, or security deposits received for providing water, electric, sewer, or cable service. On the contrary, obligations representing long-term deferments of the delivery of services would not be shown as current liabilities. An example of the latter is the advance receipt by a lessor of the lease payment for the final period of a 10-year lease as a condition to execution of the lease agreement. [GASBS 62, fn12, as amended by GASBS 87, ¶53]

⁴³*Date of the financial statements* means the end of the most recent accounting period for which financial statements are being presented. [GASBS 62, fn13]

⁵⁴Specific guidance for demand bonds is provided in paragraph ~~11821~~. [GASBS 62, fn14]

⁶⁵An obligation is *callable* at a given date if the creditor has the right at that date to demand, or to give notice of its intention to demand, repayment of the obligation owed to it by the debtor. [GASBS 62, fn15]

⁷⁶A *violation of a provision* is the failure to meet a condition in a debt agreement or a breach of a provision in the agreement for which compliance is objectively determinable, whether or not a grace period is allowed or the creditor is required to give notice of its intention to demand repayment. [GASBS 62, fn16]

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will make the obligation callable. Accordingly, such callable obligations should be classified as current liabilities unless one of the following conditions is met:

- a. The creditor has waived⁷⁹ or subsequently lost⁸⁹ the right to demand repayment for more than one year from the date of the financial statements.
- b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable⁹¹⁰ that the violation will be cured within that period, thus preventing the obligation from becoming callable.

Short-term obligations that are expected to be refinanced on a long-term basis, including those callable obligations discussed herein, should be classified in accordance with paragraphs .107~~8~~–.114~~5~~. [GASBS 62, ¶34, as amended by GASBS 63, ¶18, and GASBS 84, ¶5, and GASBS XX, ¶27]

~~.107.106~~ This concept of current liabilities should include estimated or accrued amounts that are expected to be required to cover disbursements within the year for known obligations (a) the amount of which can be determined only approximately (as in the case of provisions for accruing bonus payments) or (b) in which the specific person or persons to whom payment will be made cannot as yet be designated (as in the case of estimated costs to be incurred in connection with guaranteed servicing or repair of products already sold). The current liability classification, however, is not intended to include debts to be liquidated by resources that have been accumulated in accounts of a type not properly classified as current assets, or long-term obligations incurred to provide increased amounts of working capital for long periods. When the amounts of the periodic payments of an obligation are, by contract, measured by current transactions, as, for example, by rents or revenues received in the case of equipment trust certificates or by the depletion of natural resources in the case of property obligations, the portion of the total obligation to be included as a current liability should be that representing the amount accrued at the date of the financial statements. [GASBS 62, ¶35]

Classification of Short-Term Obligations Expected to Be Refinanced

~~.108.107~~ For purposes of applying paragraphs .104~~5~~–.114~~5~~, *short-term obligations* are those that are scheduled to mature within one year after the date of a government's financial statements. *Long-term obligations* are those scheduled to mature beyond one year from the date of a government's financial statements. *Refinancing a short-term obligation on a long-term basis* means either replacing it with a long-term obligation or renewing, extending, or replacing it with short-term obligations for an uninterrupted period extending beyond one year from the date of a government's financial statements.

⁸⁷If the obligation is callable because of violations of certain provisions of the debt agreement, the creditor needs to waive its right with regard only to those violations. [GASBS 62, fn17]

⁹⁸For example, the debtor has cured the violation after the date of the financial statements and the obligation is not callable at the time the financial statements are issued. [GASBS 62, fn18]

¹⁰⁹*Probable* is defined in paragraph .155 of Section C50 as "likely to occur" and is used in the same sense in this paragraph. [GASBS 62, fn19]

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Accordingly, despite the fact that the short-term obligation is scheduled to mature during the ensuing fiscal year, it will not require the use of working capital during that period. [GASBS 62, ¶36]

Classification

~~.109.~~108 Short-term obligations arising from transactions in the normal course of operations that are due in customary terms should be classified as current liabilities. [GASBS 62, ¶37]

~~.110.~~109 A short-term obligation other than one classified as a current liability in accordance with paragraph .108~~9~~ should be excluded from current liabilities only if the following conditions are met:¹¹⁹

- a. The government intends to refinance the obligation on a long-term basis. (See paragraph .107~~8~~.)
- b. The government has the ability to consummate the refinancing. (See paragraph .110~~1~~.)

[GASBS 62, ¶38]

Ability to Consummate the Refinancing

~~.111.~~110 The government's intent to refinance the short-term obligation on a long-term basis is supported by an ability to consummate the refinancing demonstrated in either of the following ways:

- a. *Issuance of a long-term obligation after the date of the financial statements.* After the date of a government's financial statements but before those financial statements are issued, a long-term obligation has been issued for the purpose of refinancing the short-term obligation on a long-term basis; or
- b. *Financing agreement.* Before the financial statements are issued, the government has entered into a financing agreement that clearly permits the government to refinance the short-term obligation on a long-term basis on terms that are readily determinable, and all of the following conditions are met:
 - (1) The agreement does not expire within one year from the date of the government's financial statements and during that period the agreement is not cancelable by the lender or the prospective lender (and obligations incurred under the agreement are not callable during that period) except for violation of a provision with which compliance is objectively determinable or measurable. ¹²¹

¹¹⁹Consistent with paragraph .108~~9~~ and footnote 2 of Section 1800, "Classification and Terminology," resources obtained on a long-term basis prior to the date of the financial statements would be excluded from current assets if the obligation to be liquidated is excluded from current liabilities. [GASBS 62, fn20]

¹²¹Financing agreements cancelable for violation of a provision that can be evaluated differently by the parties to the agreement (such as "a material adverse change" or "failure to maintain satisfactory operations") do not comply with this condition. [GASBS 62, fn21]

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- (2) No violation of any provision in the financing agreement exists at the date of the financial statements and no available information indicates that a violation has occurred thereafter but prior to the issuance of the financial statements, or, if one exists at the date of the financial statements or has occurred thereafter, a waiver has been obtained.
- (3) The lender or the prospective lender with which the government has entered into the financing agreement is expected to be financially capable of honoring the agreement.

[GASBS 62, ¶39]

~~.112.111~~ If a government's ability to consummate an intended refinancing of a short-term obligation on a long-term basis is demonstrated by issuance of a long-term obligation after the date of the financial statements (paragraph .110~~1a~~), the amount of the short-term obligation to be excluded from current liabilities should not exceed the proceeds of the new long-term obligation. If the ability to refinance is demonstrated by the existence of a financing agreement (paragraph .110~~1b~~), the amount of the short-term obligation to be excluded from current liabilities should be reduced to the amount available for refinancing under the agreement when the amount available is less than the amount of the short-term obligation. The amount to be excluded should be reduced further if information (such as restrictions in other agreements or restrictions as to transferability of resources) indicates that resources obtainable under the agreement will not be available to liquidate the short-term obligation. Further, if amounts that could be obtained under the financing agreement fluctuate (for example, in relation to the government's needs, in proportion to the value of collateral, or in accordance with other terms of the agreement), the amount to be excluded from current liabilities should be limited to a reasonable estimate of the minimum amount expected to be available at any date from the scheduled maturity of the short-term obligation to the end of the fiscal year. If no reasonable estimate can be made, the entire outstanding short-term obligation should be included in current liabilities. [GASBS 62, ¶40]

~~.113.112~~ The government may intend to seek an alternative source of financing rather than to exercise its rights under the existing agreement when the short-term obligation becomes due. The government should intend to exercise its rights under the existing agreement, however, if that other source does not become available.¹³² [GASBS 62, ¶41]

¹³²The intent to exercise may not be present if the terms of the agreement contain conditions or permit the prospective lender to establish conditions, such as interest rates or collateral requirements that are unreasonable to the government. [GASBS 62, fn22]

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General Principles

~~114.113~~ Replacement of a short-term obligation with another short-term obligation after the date of the financial statements but before the financial statements are issued is not, by itself, sufficient to demonstrate a government's ability to refinance the short-term obligation on a long-term basis. If, for example, the replacement is made under the terms of a revolving credit agreement that provides for renewal or extension of the short-term obligation for an uninterrupted period extending beyond one year from the date of the financial statements, the revolving credit agreement is required to meet the conditions in paragraph .110~~1b~~ to justify excluding the short-term obligation from current liabilities. Similarly, if the replacement is another short-term obligation accompanied by a "stand-by" credit agreement, the stand-by agreement is required to meet the conditions in paragraph .110~~1b~~ to justify excluding the short-term obligation from current liabilities. [GASBS 62, ¶42]

~~115.114~~ Repayment of a short-term obligation *before* resources are obtained through a long-term refinancing requires the use of current assets. Therefore, if a short-term obligation is repaid after the date of the financial statements and subsequently a long-term obligation whose proceeds are used to replenish current assets before the financial statements are issued, the short-term obligation should not be excluded from current liabilities at the date of the financial statements. [GASBS 62, ¶43]

Modified Accrual Recognition of Liabilities and Expenditures Applying the Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting

.115 Liabilities recognized in governmental fund financial statements are those that arise from short-term transactions and other events that meet the criteria in paragraphs .105 and .106a of Section 1600. In addition, long-term debt issued for short-term purposes is recognized as a liability. Liabilities arising from long-term transactions and other events are recognized when payments to be made become due except for long-term debt issued for short-term purposes which is recognized as a short-term transaction. Payments to be made that have not yet become due on long-term transactions and other events are general long-term liabilities. [GASBS XX, ¶20]

.116 Examples of long-term debt issued for short-term purposes are tax anticipation notes and revenue anticipation notes with maturities beyond one year from inception of the transaction. [GASBS XX, ¶21]

~~.116 Consistent with the flow of current financial resources measurement focus required for governmental fund financial statements, governmental financial reporting standards include criteria for distinguishing the portions of liabilities incurred by the government that should be reported as:~~

~~a. Governmental fund liabilities (claims against current financial resources)
General long-term liabilities of the government. [GASB 6, ¶18] Superseded by GASBS XX,~~

¶12, ¶13, and ¶20]

~~.117 Paragraph .111 requires that a government accrue a governmental fund liability and expenditure for most expenditures and transfers in the period in which the government incurs the liability. However, paragraphs .103 and .104 require that *unmatured long-term indebtedness*¹³ (the portion of general long-term indebtedness that is not yet due for payment) be reported as general long-term liabilities of the government, rather than as governmental fund liabilities. As discussed in paragraph .103, that requirement applies not only to formal debt issues such as bonds, but also to other forms of general long-term indebtedness, including leases, compensated absences, claims and judgments, pensions, termination benefits, landfill closure and postclosure obligations and other asset retirement obligations, pollution remediation obligations,~~

¹³Other than "specific fund liabilities" of proprietary and fiduciary funds. [GASBI 6, fn4]

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~~and "other commitments that are not current liabilities properly recorded in governmental funds." [GASBI 6, ¶9, as amended by GASBS 47, ¶3, GASBS 49, ¶9 and ¶24, GASBS 83, ¶8 and ¶24, and GASBS 87, ¶20] Superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23]~~

~~.118 *Matured liabilities* (other than those associated with proprietary or fiduciary funds) should be reported as governmental fund liabilities. Matured liabilities include:~~

- ~~a. Liabilities that normally are due and payable in full when incurred~~
- ~~b. The matured portion of general long-term indebtedness (the portion that has come due for payment).~~

~~[GASBI 6, ¶10] Superseded by GASBS XX, ¶12, ¶13, and ¶20]~~

~~.119 In addition to the preceding criteria for classification of liabilities, a series of specific accrual modifications have been established pertaining to the reporting of certain forms of long-term indebtedness. For example:~~

- ~~• Debt service on formal debt issues (such as bonds and leases) generally should be recognized as a governmental fund liability and expenditure when due (matured) with optional additional accrual under certain conditions, as interpreted in paragraph .123.~~
- ~~• Compensated absences, claims and judgments, termination benefits, landfill closure and postclosure care costs and other asset retirement obligations, and receipts of goods and services for pollution remediation should be recognized as governmental fund liabilities and expenditures to the extent the liabilities are "normally expected to be liquidated with expendable available financial resources," as interpreted in Section 1600, paragraph .122.~~

~~[GASBI 6, ¶11, as amended by GASBS 47, ¶3, GASBS 49, ¶24, GASBS 83, ¶8 and ¶24, and GASBS 87, ¶35 and ¶36] Superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23]~~

~~.120.117 Debt issued to finance capital projects that will be repaid wholly or partly from special assessments against benefited property owners should be reported as follows:~~

- ~~a. General obligation debt that will be repaid, in part, from special assessments should be reported as general long-term liabilities only in the governmental activities column in the government-wide statement of net position.~~
- ~~b. Special assessment debt for which the government is obligated in some manner as described in Section S40, paragraph .115, should be reported as general long-term liabilities in the governmental activities column in the government-wide statement of net position, except for the portion, if any, that is a direct obligation of an enterprise fund or that is expected to be repaid from operating revenues of an enterprise fund.~~

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- (1) The portion of the special assessment debt that will be repaid from property owner assessments should be reported as "special assessment debt with governmental commitment."
 - (2) The portion of special assessment debt that will be repaid from general resources of the government (the public benefit portion or the amount assessed against government-owned property) should be reported like other general long-term liabilities.
 - (3) The portion of special assessment debt that is (a) a direct obligation of the enterprise fund or (b) is not a direct obligation but is expected to be repaid from enterprise fund revenues should be reported as liabilities of those funds in the proprietary fund statement of net position. These liabilities also should be reported in the government-wide statement of net position.
- c. Special assessment debt for which the government is not obligated in any manner should not be displayed in the government's financial statements. However, if the government is liable for a portion of that debt (the public benefit portion, or as a property owner), that *portion* should be reported as above.

[GASBS 6, ¶17, as amended by GASBS 34, ¶30; GASBS 6, ¶23, as amended by GASBS 34, ¶98 and GASBS 63, ¶8; GASBS 34, ¶15; GASBS 34, ¶30, ¶82, and ¶92, as amended by GASBS 63, ¶8]

~~.121.118~~ Short-term and specific fund long-term liabilities (of proprietary funds and fiduciary funds), interfund liabilities, and, in certain circumstances, demand bonds (discussed in Section D30) are reported as fund liabilities. All other long-term liabilities with the exception of long-term debt issued for short term purposes are general long-term liabilities and should not be reported in governmental funds but should be reported as liabilities in the governmental activities column in the government-wide statement of net position. Proceeds of long-term debt issues not recorded as fund liabilities—for example, the face amount of bonds or notes ~~used expended~~ through capital projects or debt service funds—normally should be ~~reflected reported in as~~ "Other Financing Sources/Net Flows from Noncurrent Activities" in the operating statement of the recipient fund. Such amounts should be reported in captions such as "Bonds Issued" or "Long-Term Notes Issued." The proceeds of a special assessment debt issue for which the government is *not* obligated in any manner should be identified by a description other than "bond proceeds," such as "contribution from property owners," in accordance with Section S40, paragraph .119. The treatment of proceeds of advance refundings of general long-term debt and related payments is discussed in Section D20, "Debt Extinguishments and Troubled Debt Restructuring." [NCGAS 1, ¶107; NCGAS 1 and ¶108, as amended by GASBS XX, ¶27; GASBS 34, ¶82, as amended by GASBS 63, ¶8 and GASBS XX, ¶20; GASBS 34, ¶88, as amended by GASBS 37, ¶16; GASBI 1, ¶10, as amended by GASBS 63, ¶8; GASBI 1, ¶12; and GASBI 1, ¶13, as amended by GASBS XX, ¶27]

General Long-Term Debt Issue Expenditures

~~.118~~ Section 1600, paragraph .115, indicates that most governmental fund expenditures are measurable and should be reported when the related liability is incurred. The major exception to the general rule of expenditure accrual relates to unmatured principal

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~~and interest on general long-term debt. Governmental fund liabilities and expenditures for debt service on general long-term debt, including leases, generally should be recognized *when due*—that is, to the extent that portions of the debt mature during the reporting period. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus are not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets. Further, to accrue the debt service fund expenditure and liability in one period but record the transfer of financial resources for debt service purposes in a later period would be confusing and would result in overstatement of debt service fund expenditures and liabilities and understatement of the fund balance. Thus, disclosure of subsequent-year debt service requirements is appropriate, but they usually are appropriately accounted for as expenditures in the year of payment. On the other hand, if debt service fund resources have been provided during the current year for payment of principal and interest due early in the following year, the expenditure and related liability may be recognized in the debt service fund, as discussed in the next paragraph. [NCGAS 1, ¶70 and ¶72, as amended by GASBS 34, ¶82; GASBS 6, ¶16; GASBI 6, ¶13, as amended by GASBS 87, ¶35 and ¶36] Superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23]~~

Additional Recognition of Debt Service Liabilities and Expenditures

~~.123 The preceding paragraph explicitly applies to recognition in debt service funds. A government has “provided” financial resources to a debt service fund if it has deposited in or transferred to that fund financial resources that are dedicated for payment of debt service. “Early in the following year” refers to a short time period—usually one to several days and not more than one month. Accrual of an additional fund liability and expenditure is not permitted for (a) financial resources that are held in another governmental fund or (b) nondedicated financial resources transferred to a debt service fund at the discretion of management.¹⁴ [GASBI 6, ¶13] Superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23]~~

Relation to Debt Service Funds

~~.124.119 Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to outflow of resources expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds. [GASBS 54, ¶34, as amended by GASBS XX, ¶27]~~

¹⁴~~Accumulations of financial resources that do not meet the criterion for recognition of an additional debt service fund liability and expenditure should be reported as part of fund balance. [GASBI 6, fn5] Superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23]~~

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General Principles

Contingent Liabilities

~~.125.~~120 Contingent liabilities not requiring accrual should be disclosed in the notes to the financial statements in accordance with Section 2300.¹⁴⁵ This includes situations in which the governmental unit is contingently liable for proprietary fund or trust fund indebtedness. In the event that fund liabilities for which the unit is contingently liable are in default—or where for other reasons it appears probable that they will not be paid on a timely basis from the resources of these funds and default is imminent—these liabilities should be reported separately from other liabilities in the fund balance sheet and in the government-wide statement of net position. All significant facts with respect to the situation should be disclosed. [NCGAS 1, ¶46, as amended by NCGAS 4, GASBS 6, ¶13, GASBS 10, ¶58, GASBS 34, ¶13, and GASBS 63, ¶8]

Other Considerations

Conduit Debt

~~.121.~~~~126~~—Section C65 provides guidance for issuers of conduit debt obligations. Issuers should recognize liabilities when the criteria in paragraphs .107–.114 of that section are met. [GASBS 91, ¶10–¶17]

Debt Extinguishments and Troubled Debt Restructuring

~~.122.~~~~127~~—Accounting and financial reporting for debt extinguishments, including current refundings, advance refundings that result in legal or in-substance defeasance of debt, in-substance defeasance of debt completed using cash and other monetary assets acquired with only existing resources, and troubled debt restructuring is discussed in Section D20.

Disclosures about Long-Term Liabilities

~~.123.~~~~128~~—As discussed in Section 2300, governments are required to provide detail in the notes to the financial statements about long-term liabilities of the primary government presented in the government-wide statement of net position. In addition, Section 2500 requires governments that report enterprise funds or that use enterprise fund accounting and reporting standards to disclose segment information for identifiable activities for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding.

¹⁴⁵Disclosures of pollution remediation obligations are required only if an obligating event has occurred as discussed in Section P40, paragraph .109. [GASBS 49, ¶11]

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Debt Obligations

.124 ~~.129~~ Governments should disclose the following details in notes to financial statements about debt service requirements to maturity. For this purpose, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed¹⁵ at the date the contractual obligation is established. For this purpose, debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, an operator's liability for installment payments associated with a public-private or public-public partnership, subscription liabilities arising from subscription-based information technology arrangements, or accounts payable. A government should separate information in debt disclosures regarding direct borrowings and direct placements of debt from other debt. Details should include:

- a. Principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter. Interest requirements for variable-rate debt should be determined using the rate in effect at the financial statement date.
- b. The terms by which interest rates change for variable-rate debt. [GASBS 38,

¶10, as amended by GASBS 88, ¶4 and ¶6, GASBS 94, ¶6, and GASBS 96, ¶61]

.125 ~~.130~~ A government should disclose in its notes to financial statements summarized information about the following items, separating information regarding direct borrowings and direct placements of debt from other debt.

- a. Amount of unused lines of credit
- b. Assets pledged as collateral for debt
- c. Terms specified in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses.

[GASBS 88, ¶5 and ¶6]

Bankruptcies

.126 ~~.131~~ Accounting and financial reporting for liability adjustments in bankruptcy is discussed in Section Bn5.

¹⁵For purposes of this determination, interest to be accrued and subsequently paid (such as interest on variable-rate debt) or interest to be added to the principal amount of the obligation (such as interest on capital appreciation bonds) does not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established. [GASBS 88, fn1]

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GASB TECHNICAL BULLETINS

.601 See Section P20, paragraph .601, or Section P50, paragraph .601, for additional guidance regarding the recognition of certain liabilities by employers in cost-sharing pension or OPEB plans and by governmental nonemployer contributing entities with a legal requirement to contribute to cost-sharing pension plans.

Reporting Liabilities

1500.702

GASB IMPLEMENTATION GUIDES

.701 Reporting Long-Term Liabilities

No questions assigned.

.702 Fund Liabilities

.702-1 Q—A local government issued general obligation bonds for the purpose of constructing capital facilities for an enterprise fund. The government's officials have determined that the enterprise fund will make the principal and interest payments on the bonds. On the government-wide statement of net position, would the government report governmental activities with debt but no asset, and business-type activities with the asset but no debt?

A—No. Paragraph .102 of this section states that bonds, notes, and other long-term liabilities directly related to and expected to be paid from proprietary funds should be included in the accounts of such funds. Therefore, in this situation, the debt should be reported as enterprise fund (and consequently business-type activity) debt, because it is expected that the enterprise fund will repay the debt. If that were not the case, however, in the government-wide statement of net position, business-type activities would report an asset and no debt, and governmental activities would report debt and no asset. (See Question .733-1 in Section 1800 for guidance about reclassifying the debt within a total column.)

[GASBIG 2015-1, Q7.22.11]

.702-2 Q—In Question .702-1 in this section, if the recipient of the capital assets is a discretely presented component unit, rather than an enterprise fund, should the component unit include the debt in its financial statements?

A—A government (the component unit, in this case) should report the general obligation debt of another government as a liability only if it is legally obligated to repay it. This answer differs from the response to Question .702-1 because the debt is an obligation of the primary government (a separate legal entity), and within its legal entity, the government may *assign* the debt to the fund from which repayment is expected. On the other hand, a component unit is an entity legally separate from the primary government and a similar "assignment" of debt cannot be made. Both this section and Section N50, "Nonexchange Transactions," regard transactions with discretely presented component units as *external* transactions.

[GASBIG 2015-1, Q7.22.12]

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General Principles

.702-3 Q—A governmental fund incurs a liability to the general fund with no specific repayment arrangement. Should the interfund payable be reported as a fund liability of that governmental fund presented applying under the modified—short-term financial resources measurement focus and accrual basis of accounting?

A—The government should either report the amount as a fund liability in accordance with paragraph .122 of Section 1300, “Fund Accounting,” or reclassify it as a transfer, as discussed in paragraph .102a(1) of Section 1800. Paragraph .122 of Section 1300 states that liabilities arising from interfund activities do not constitute general long-term liabilities and therefore should be reported in governmental funds. Paragraph .102a(1) of Section 1800 provides that, if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer. (See Question .702-8 in Section 1800 about the meaning of *reasonable* time.)

[GASBIG 2015-1, Q7.59.2, as amended by GASBS XX, ¶12]

.703 General Long-Term Liabilities

.703-1 Q—A government that provides pensions to its employees through a single-employer plan issues tax-supported general obligation bonds to fund the pensions provided to its employees. How should the pension obligation bonds be reported?

A—The pension obligation bonds should be reported as a governmental activities liability (bonds payable) in the statement of net position. If the pensions are within the scope of Section P20, to the extent that the contribution is reported as an addition to the pension plan’s fiduciary net position, the net pension liability would be reduced by the amount of the bond proceeds remitted to the pension plan through the measurement date, and a deferred outflow of resources related to pensions would be reported for the amount of proceeds remitted to the pension plan subsequent to the measurement date. If the proceeds are instead used to satisfy a payable to the defined benefit pension plan, the payable would be reduced by amounts remitted to the pension plan through the employer’s fiscal year-end. If any proceeds of the bonds have not been remitted to the pension plan, they should be included in the governmental activities assets. If the pensions are within the scope of Section P22, any bond proceeds that have not been used to make benefit payments should be included in the governmental activities assets.

[GASBIG 2015-1, Q7.8.3, as amended by GASBIG 2016-1, Q5.11]

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.704 Statement of Net Position Classification

No questions assigned.

.705 Current Liabilities

No questions assigned.

.706 Classification of Short-Term Obligations Expected to Be Refinanced

No questions assigned.

.707 Classification

No questions assigned.

.708 Ability to Consummate the Refinancing

No questions assigned.

.709 ~~Modified Accrual Recognition of Liabilities and Expenditures~~ Applying the Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting

No questions assigned.

~~.710 General Long-Term Debt Issue Expenditures~~

No questions assigned.

~~.711 Additional Recognition of Debt Service Liabilities and Expenditures~~

No questions assigned.

~~.712.710~~ Relation to Debt Service Funds

No questions assigned.

~~.713.711~~ Contingent Liabilities

No questions assigned.

~~.714.712~~ Other Considerations

No questions assigned.

1500.715 *General Principles*

~~.715.~~**713** **Conduit Debt**

No questions assigned.

~~.716.~~**714** **Debt Extinguishments and Troubled Debt Restructuring**

No questions assigned.

~~.717.~~**715** **Disclosures about Long-Term Liabilities**

No questions assigned.

~~.718.~~**716** **Debt Obligations**

No questions assigned.

~~.719.~~**717** **Bankruptcies**

No questions assigned.

Reporting Liabilities

1500.802

AICPA LITERATURE CLEARED BY THE GASB

Arbitrage Liabilities

.801 Governments generally should calculate the arbitrage liability annually to determine whether it is material and thus should be reported in the financial statements. [AICPA SLG 2002, ¶5.06]

Timing of Debt Reporting

.802 Governments should record the issuance of debt in the period debt instruments are issued, that is, on the closing date. No amounts are recorded until the debt instruments are issued. If a closing takes place before year-end but proceeds are not received until early in the following year, receivables and liabilities should be reported on the closing date. [AICPA SLG 2002, ¶8.16]

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

SECTION 1600

Sources: NCGAS 1, ~~NCGAS 4, 1974 ASL GU~~, GASBS 6, GASBS 16, GASBS 17, GASBS 31, GASBS 33, GASBS 34, GASBS 38, GASBS 62, GASBS 72, GASBS 81, GASBS 84, ~~GASBI 6, GASBS XX~~, GASBIG 2015-1

See also: Section 1500, "Reporting Liabilities"
Section 1700, "The Budget and Budgetary Accounting"
Section A10, "Certain Asset Retirement Obligations"
Section D20, "Debt Extinguishments and Troubled Debt Restructuring" Section E70, "Escheat Property"
Section F60, "Food Stamps"
Section L10, "Landfill Closure and Postclosure Care Costs"
Section L20, "Leases"
Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit"
Section P40, "Pollution Remediation Obligations"
Section P50, "Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit"
Section P70, "Property Taxes"
Section S40, "Special Assessments"
Section T25, "Termination Benefits"

Statements of Principle Measurement Focus and Basis of Accounting Government-Wide Financial Statements

The government-wide statement of net position and the statement of activities should be ~~prepared using~~presented applying the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange transactions other than those associated with irrevocable split-interest agreements should be recognized in accordance with Section N50, "Nonexchange Transactions." [GASBS 34, ¶16, as amended by GASBS 63, ¶7 and ¶8, ~~GASBS 81, ¶24-¶28~~, and GASBS ~~81, ¶24-¶28~~XX, fn10]

Fund Financial Statements

In fund financial statements, the short-term financial resources measurement focus and modified-accrual basis of accounting or economic resources measurement focus and accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

- a. Financial statements for governmental funds should be presented ~~using~~ applying the ~~current short-term~~ financial resources measurement focus and ~~the modified-accrual basis of accounting~~. ~~Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term liabilities, which should be recognized when due.~~
- b. Proprietary fund statements of fund net position and revenues, expenses, and changes in fund net position should be presented ~~using~~ applying the economic resources measurement focus and ~~the~~ accrual basis of accounting.
- c. Financial statements of fiduciary funds should be ~~reported using~~ presented applying the economic resources measurement focus and ~~the~~ accrual basis of accounting. The recognition of certain liabilities of fiduciary ~~activities-funds~~ is discussed in paragraph .1382 of this section.
- d. Transfers should be reported in the accounting period in which the interfund receivable and payable arise.

[NCGAS 1, ¶57, as amended by GASBS 6, ¶15 and GASBS XX, ¶12 and fn10; GASBS 34, ¶6 and ¶79; GASBS 34, ¶92, as amended by GASBS 63, ¶8 and GASBS XX, fn10; GASBS 34, ¶107, as amended by GASBS 67, ¶20, GASBS 73, ¶115 and ¶116, GASBS 74, ¶26, and GASBS 84, ¶18 and ¶21 GASBS 92, ¶8, and GASBS XX, fn10; GASBS 84, ¶22, as amended by GASBS 92, ¶9; GASBS XX, ¶12]

.101 "Measurement focus" refers to *what* items should be reported as elements of financial statements. "Basis of accounting" refers to *when* inflows of short-term financial resources, revenues, outflows of short-term financial resources, expenditures, expenses, and transfers—and assets, deferred outflows of resources, liabilities, and deferred inflows of resources—are ~~recognized in the accounts and~~ reported in the financial statements. Specifically, it relates to the *timing* of the measurements made, regardless of the nature of the measurement, on either the cash or the accrual method. For example, whether depreciation is recognized depends on whether expenses or outflows of short-term financial resources expenditures are being measured rather than on whether the cash or accrual basis is used. [NCGAS 1, ¶58, as amended by GASBS 63, ¶7 and GASBS XX, ¶12, ¶22, and ¶23; GASBS XX, ¶12]

Cash, Short-Term Financial Resources, and Economic Resources Measurement Focuses and Cash and Accrual Bases of Accounting

.102 ~~Under Applying the cash measurement focus and basis of accounting, revenues and inflows, including transfers in, are not recognized until cash is received, and outflows, including expenditures or expenses (as appropriate) and transfers out are recognized only when cash is disbursed. The short-term financial resources measurement focus incorporates inflows of short-term financial resources and outflows of short-term financial resources and all short-term financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and also reports fund balance. Applying an accrual basis of accounting, elements of financial statements arising from short-term transactions and other events are recognized as they occur, and elements of financial statements arising from long-term transactions or other events are recognized when payments are due. Under Applying the economic resources measurement focus and accrual basis of accounting, most transactions are recognized when they occur, regardless of when cash is received or disbursed. Items not practicably measurable until cash is received or disbursed are accounted for at that time using either basis of accounting, as may be items whose measurement would be approximately the same under either basis or that are immaterial. [NCGAS 1, ¶59, as amended by GASBS 34, ¶6 and GASBS XX, ¶12, ¶27, and fn10; GASBS XX, ¶12]~~

Economic Resources Measurement Focus and Accrual-Basis of Accounting Reporting in Government-Wide Financial Statements

.103 ~~The statement of net position and the statement of activities should be prepared using presented applying the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place.¹ Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange transactions should be recognized in accordance with the requirements of Section N50. [GASBS 34, ¶16, as amended by GASBS 63, ¶7 and ¶8 and GASBS XX, fn10]~~

.104 Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured. Accordingly, revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts. In the absence of the circumstances² referred to above or other specific guidance, such as in paragraphs .101–.170 of Section R30, “Real Estate,” the installment method is not acceptable. [GASBS 62, ¶23]

¹In this section, the terms *transaction* and *transactions* refer only to *external* events in which something of value (benefit) passes between two or more parties. The difference between exchange

— and exchange-like transactions is a matter of degree. In contrast to a “pure” exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition. [GASBS 34, fn11]

²There are exceptional cases in which receivables are collectible over an extended period of time and, because of the terms of the transactions or other conditions, there is no reasonable basis for estimating the degree of collectibility. When such circumstances exist, and as long as they exist, either the installment method or the cost recovery method of accounting may be used. (Under the cost recovery method, equal amounts of revenue and expense are recognized as collections are made until all costs have been recovered, postponing any recognition of income until that time.) [GASBS 62, fn8]

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Short-Term Financial Resources Measurement Focus and Modified Accrual Basis of Accounting in Governmental Fund Statements

~~.105 The major differences in applying the accrual concept in governmental fund accounting, as opposed to that used in government-wide financial statements and proprietary and fiduciary fund statements, relate to differences in the environment and in the accounting measurement objectives. These modifications and adaptations for the practical and appropriate implementation of the accrual concept in governmental fund accounting are best referred to as the “modified accrual basis” and should be applied in all governmental fund accounting and reporting. [NCGAS 1, ¶61, as amended by GASBS 34, ¶6] superseded by GASBS XX, ¶12 and ¶13~~

Revenue Recognition

~~.106 Revenues and other governmental fund financial resource increments (for example, bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both *measurable* and *available* to finance expenditures of the fiscal period. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Application of the “susceptibility to accrual” criterion requires judgment, consideration of the materiality of the item in question, and due regard for the practicality of accrual, as well as consistency in application. The length of time used to define *available* for purposes of revenue recognition in the governmental fund financial statements should be disclosed in the summary of significant accounting policies. [NCGAS 1, ¶62; GASBS 38, ¶7] superseded by GASBS XX, ¶12, ¶13, and ¶22~~

~~.107. In contemporary public finance, some revenues are assessed and collected in such a manner that they can appropriately be accrued, whereas others cannot. Revenues and deferred inflows of resources that usually can and should be recorded on the accrual basis³ include property taxes, regularly billed charges for inspection or other routinely provided services, most grants from other governments, interfund transfers and other transactions, and sales and income taxes where taxpayer liability has been established and collectibility is assured or losses can be reasonably estimated. Service-type special assessment revenues should be treated like user fees unless they are nonexchange transactions, discussed in Section N50. [NCGAS 1, ¶63, as amended by GASBS 65, ¶30; GASBS 6, ¶14, as amended by GASBS 33, ¶7–¶14, ¶17, ¶18, and fn 1] superseded by GASBS XX, ¶12, ¶13, and ¶22~~

~~.108 The susceptibility to accrual of the various revenue sources of a governmental unit may differ significantly. Likewise, the susceptibility to accrual of similar revenue sources (for example, property taxes) differs among governmental units. Thus, each governmental unit should adopt revenue accounting policies that appropriately imple-~~

³“Accrual” in this context refers to the modified accrual basis of accounting. (See paragraph .105.)

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ment the susceptibility to accrual criteria, apply them consistently, and disclose them in the Summary of Significant Accounting Policies.⁴ [NCGAS 1, ¶69] superseded by GASBS XX, ¶12, ¶13, and ¶22

.105 The financial statements for governmental funds should be presented applying the short-term financial resources measurement focus and accrual basis of accounting.³ Measurement focus refers to what items should be reported as elements of financial statements. Basis of accounting refers to when those elements are recognized in the financial statements. The short-term financial resources measurement focus incorporates outflows of short-term financial resources and inflows of short-term financial resources and all short-term financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and also reports fund balance. Applying an accrual basis of accounting, elements of financial statements arising from short-term transactions and other events are recognized as they occur, and elements of financial statements arising from long-term transactions or other events are recognized when payments are due. For the purposes of recognition in financial statements presented applying the short-term financial resources measurement focus and accrual basis of accounting, events that are recognized in financial statements include (a) transactions,⁴ which are external events between a government and another party or parties that have financial consequences for the government, and (b) other events, which include internal events (such as the allocation of inflows of resources to individual funds) and external events (such as changes in fair value). Financial assets in this measurement focus include cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash. All liabilities in this measurement focus are financial liabilities. [GASBS XX, ¶12]

.106 . In financial statements presented applying the short-term financial resources measurement focus and accrual basis of accounting, recognition of elements is based on whether transactions or other events are short term or long term. Whether a transaction or other event is short term or long term is determined by the period of time that elapses between the inception of the transaction or relevant component part thereof or other event and the conclusion of the transaction or relevant component part thereof or other event as discussed in paragraphs .107–.111.

- a. Short-term transactions and other events are those for which the period from inception to conclusion is one year or less.
- b. Long-term transactions and other events are those for which the period from inception to conclusion is greater than one year. If payments are made or received prior to the due date, elements from long-term transactions and other events (such as debt service principal and interest) are recognized when payments are made or received. [GASBS XX, ¶13]

³ This provision amends discussions of other measurement focuses and bases of accounting in National Council on Governmental Accounting and GASB pronouncements and related terminology, as applicable, to be consistent with terminology used in this Statement regarding the application of the short-term financial resources measurement focus and accrual basis of accounting. [GASBS XX, fn10]

⁴ As used for the purposes of recognition in financial statements presented applying the short-term financial resources measurement focus and accrual basis of accounting, transaction may or may not be the same as unit of account. Paragraph 8 of Statement No. 72, *Fair Value Measurement and Application*, defines unit of account as “the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes.”

.107 A transaction requires an action or actions by one or more of the parties thereto. An action is the transfer of control of resources, for example, the provision of a good or service that a party to a transaction takes that establishes all or a portion of its rights or fulfills all or a portion of its obligations in that transaction.

- a. Inception of the transaction generally is when a party takes an action that results in initial recognition of an asset or liability.
- b. When a transaction requires only a single action by each party and those actions collectively result in a government that is a party to the transaction fully establishing its rights or entirely fulfilling its obligations, conclusion of the transaction generally is when the final payment of cash (or other financial assets) is due (the date at which payment is scheduled, or if not scheduled, expected to be made) according to the terms of the binding arrangement (or estimated payments if there is no binding arrangement or if the binding arrangement does not have specific payment terms).
- c. When a transaction requires multiple actions by a party or more than one party and the actions of all parties collectively result in a government that is a party to the transaction fully establishing its rights or entirely fulfilling its obligations, each action or (a combination of related actions) that establishes a portion of that government's rights or fulfills a portion of that government's obligations is the relevant component part of the transaction to determine when conclusion occurs. Conclusion of the action (or combination of related actions) generally is when the final payment of cash or other financial assets for the action (or combination of related actions) is due (the date at which payment is scheduled, or if not scheduled, expected to be made) according to the terms of the binding arrangement (or estimated payments if there is no binding arrangement or if the binding arrangement does not have specific payment terms). [GASBS XX, ¶14]

.108 A binding arrangement is an understanding between two or more parties that creates rights, obligations, or both among the parties to a transaction. A binding arrangement can be written, oral, or implied by the government's existing practices; examples include legislation, contracts, and grant agreements. [GASBS XX, ¶15]

.109 A binding arrangement may produce one or more transactions for purposes of determining whether a particular transaction is short term or long term. The relationship between the actions required to be taken by the parties determines the component parts of the transaction. When none of the parties have completed any of their required actions, a transaction has not yet occurred. A transaction first occurs when one party completes a required action. [GASBS XX, ¶16]

.110 Recognition of an other event is based on the occurrence of the event. Inception is when occurrence of the event starts and conclusion is when occurrence of the event ends. [GASBS XX, ¶17]

.111 Once a transaction or other event is classified as either short- term or long- term, it should continue to be reported in that classification for financial reporting purposes even when there are changes in the existing binding arrangement's terms or conditions. However, if a new binding arrangement is entered into (for example, a loan arrangement is entered into to replace an account payable), that transaction should be classified and reported. [GASBS XX, ¶18]

Application of the Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting in Governmental Funds

Assets and Liabilities

.112 Assets recognized in governmental fund financial statements are those that arise from short-term transactions and other events that meet the criteria in paragraphs .105 and .106a, which include inventories and prepaid expenses. All investments should be reported as assets for consistency with the definition of financial assets that includes assets available to be converted to cash. In addition, assets arising from long-term transactions and other events should be recognized in the governmental fund financial statements when payments to be received become due. [GASBS XX, ¶19]

.113 Liabilities recognized in governmental fund financial statements are those that arise from short-term transactions and other events that meet the criteria in paragraphs .105 and .106a. In addition, long-term debt issued for short-term purposes is recognized as a liability. Liabilities arising from long-term transactions and other events are recognized when payments to be made become due except for long-term debt⁵ issued for short-term purposes, which is recognized as a short-term transaction. Payments to be made that have not yet become due on long-term transactions and other events are general long-term liabilities. [GASBS XX, ¶20]

.114 Examples of long-term debt issued for short-term purposes are tax anticipation notes and revenue anticipation notes with maturities beyond one year from the inception of the transaction. [GASBS XX, ¶21]

Inflows of Resources and Outflows of Resources

.115 Inflows of short-term financial resources for a reporting period in governmental fund financial statements are recognized for (a) short-term transactions and other events as they occur and (b) long-term transactions and other events when payments are due except for long-term debt issued for short-term purposes, which is recognized as a short-term transaction. Inflows of short-term financial resources for a reporting period in governmental fund financial statements include on-behalf payments for fringe benefits and salaries and direct vendor financing, for example, leases. [GASBS XX, ¶22]

.116 Outflows of short-term financial resources for a reporting period in governmental fund financial statements are recognized for (a) short-term transactions and other events (such as use of goods and services and acquisition of capital assets) as they occur and (b) long-term transactions and other events when payments are due except for long-term debt issued for short-term purposes, which is recognized as a short-term transaction. Outflows of short-term financial resources for a reporting period in governmental fund financial statements include on-behalf payments for fringe benefits and salaries and direct vendor financing, for example, leases. Depreciation and amortization should not be recognized as an outflow of resources because capital assets are not financial resources and are not recognized as assets. [GASBS XX, ¶23]

Deferred Outflows of Resources and Deferred Inflows of Resources

.117 Deferred outflows of resources and deferred inflows of resources in governmental fund financial statements should be recognized for both short-term and long-term transactions and other events when the outflow (or inflow) of resources is applicable to a future reporting period. [GASBS XX, ¶24]

⁵ See Section 1500, "Reporting Liabilities," paragraph 124 for the definition of debt. [GASBS XX, fn12]

.118 Recognition of deferred outflows of resources and deferred inflows of resources is limited to those instances identified in GASB Statements. When a government imposes a tax for a period subsequent to the reporting period, the tax that is collected during the reporting period or reported as a receivable at the end of the reporting period should be recognized as a deferred inflow of resources. [GASBS XX, ¶25]

Items Arising from Interfund Events

.119 Interfund balances and transfers should be recognized as short-term events even if the events from which they arise meet the criteria in paragraph .106b to be classified as long-term events. [GASBS XX, ¶26]

Investment Income

~~.109 .120~~ Interest and dividend income should be recognized on the short-term financial resources measurement focus and modified accrual basis of accounting. Changes in the fair value of investments should be recognized as inflows of short-term financial resources revenue in the governmental fund statement of short-term financial resource flows revenues, expenditures, and changes in fund balances at the end of each annual reporting period as discussed in Section I50, "Investments."⁶ When identified separately as an element of investment income, the change in the fair value of investments should be captioned "net increase (decrease) in the fair value of investments."⁶ Realized gains and losses should not be displayed separately from the net increase (decrease) in the fair value of investments in the financial statements. [GASBS 31, ¶13; as amended by GASBS XX, ¶11, ¶12, and ¶22; GASBS 72, ¶75]

Miscellaneous Revenues

~~.110 Golf and swimming fees, inspection charges, parking fees and parking meter receipts, and the vast multitude of miscellaneous exchange revenues are best recognized when cash is received. [NCGAS 1, ¶67, as amended by GASBS 33, ¶3] superseded by GASBS XX, ¶12, ¶13 and ¶22~~

Nonexchange Revenues

~~.111 .121~~Section N50 provides guidance on the recognition of revenues arising from certain nonexchange transactions involving financial and capital resources, including taxes (for example, sales, property, or income), certain grants, contributions, and fines. Application of the provisions of that section requires analysis of the *substance* of a nonexchange transaction, rather than attention only to its *label*. That section defines and uses four classes of nonexchange transactions. [GASBS 33, ¶5, as amended by GASBS 81, ¶4; GASBS 33, ¶7, and ¶8]

Relation to Benefit Period

~~.112 Normally, when an item is billable by the governmental unit and there is evidence that there is a valid receivable, it would be recognized as revenue at that point. However, business licenses, for example, for a particular fiscal year, even if billed before the year begins, would not constitute revenue in advance of the license year for the~~

⁴See Section 2300, "Notes to Financial Statements," paragraph .106a.

⁶⁶See Section 170, “Irrevocable Split-Interest Agreements,” for requirements related to the recognition of changes in the fair value of investments held pursuant to irrevocable split-interest agreements. [GASBS 81, ¶12 and ¶18]

⁶⁷Likewise, consistent with reporting investments at their fair value, interest income should be reported at the stated interest rate; any premiums or discounts on debt securities should not be amortized. [GASBS 31, fn7; GASBS 72, ¶75]

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reason that the benefit period to the license holder normally does not commence until actual renewal. Further, some of the business concerns billed may not renew their licenses for one reason or another. The point of accrual usually coincides with the time of renewal, generally the time of payment. For these reasons, business licenses are generally not considered susceptible to accrual. [1974 ASL GU, p. 15] superseded by GASBS XX, ¶12, ¶13 and ¶22

Accrual When Receipt Is Delayed

.113 Some revenues, even though not susceptible to accrual, should be recorded prior to actual receipt. Generally, material revenues otherwise not recorded until received should be accrued if receipt is delayed beyond the normal time of receipt. [1974 ASL GU, p. 15] superseded by GASBS XX, ¶12, ¶13 and ¶22

Revenues Received in Advance

.114 Material revenues received prior to normal time of receipt should be recorded as liabilities, unless the revenues are a result of a nonexchange transaction and all eligibility requirements, excluding time requirements, have been met. For example, property taxes or other revenues may be collected in advance of the fiscal year to which they apply. If all eligibility requirements, excluding time requirements, have been met, such amounts received in advance should be recorded as a deferred inflow of resources and recognized as revenue of the period to which they apply. [NCGAS 1, ¶66, as amended by GASBS 65, ¶31; 1974 ASL GU, p. 15, as amended by GASBS 65, ¶31] superseded by GASBS XX, ¶12, ¶13 and ¶22

.115 When property taxes are measurable but not available, the collectible portion (taxes levied less estimated uncollectibles) should be recorded as a deferred inflow of resources in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. [NCGAS 1, ¶119, as amended by GASBS 33, ¶17, GASBS 54, ¶5, and GASBS 65, ¶30] superseded by GASBS XX, ¶12, ¶13 and ¶22

Expenditure Recognition

.116 The measurement focus of governmental fund financial statements is on *expenditures*—decreases in net financial resources—rather than expenses. Most expenditures and transfers out are measurable and should be reported when the related liability is incurred. [NCGAS 1, ¶70, as amended by GASBI 6, ¶12] superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23

.117 Consistent with the flow of current financial resources measurement focus required for *governmental fund* financial statements, governmental financial reporting standards include criteria for distinguishing the portions of liabilities incurred by the government that should be reported as:

Governmental fund liabilities (claims against current financial resources)
General long-term liabilities of the government. [GASBI 6, ¶8] superseded by GASBS XX, ¶12, ¶13, and ¶20

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~~.118 Paragraph .116 requires that a government accrue a governmental fund liability and expenditure for most expenditures and transfers in the period in which the government incurs the liability. However, Section 1500, paragraphs .103 and .104, requires that *unmatured long-term indebtedness*⁷ (the portion of general long-term indebtedness that is not yet due for payment) be reported as general long-term liabilities of the government, rather than as governmental fund liabilities. That requirement applies not only to formal debt issues such as bonds, but also to other forms of general long-term indebtedness, including leases, compensated absences, claims and judgments, pensions, termination benefits, landfill closure and postclosure obligations and other asset retirement obligations, pollution remediation obligations, and “other commitments that are not current liabilities properly recorded in governmental funds.” [GASBI 6, ¶9, as amended by GASBS 47, ¶3, GASBS 49, ¶9 and ¶24, GASBS 83, ¶8 and ¶24, and GASBS 87, ¶20] superseded by GASBS XX, ¶12, ¶13, ¶ 20, and ¶23~~

Accrual in the Absence of an Applicable Modification

~~.119 In the absence of an explicit requirement to do otherwise, a government should accrue a governmental fund liability and expenditure in the period in which the government incurs the liability. Governmental fund liabilities and expenditures that should be accrued include liabilities that, once incurred, normally are paid in a timely manner and in full from current financial resources—for example, salaries, professional services, supplies, utilities, and travel. To the extent not paid, such liabilities generally represent claims against current financial resources and should be reported as governmental fund liabilities. [GASBI 6, ¶12] superseded by GASBS XX, ¶12, ¶13, ¶ 20, and ¶23~~

Long-Term Debt⁸

~~.120 The major exception to the general rule of expenditure accrual, stated in paragraph .116, relates to unmatured principal and interest on general long-term debt, which includes special assessment debt for which the government is obligated in some manner. Governmental fund liabilities and expenditures for debt service on general long-term debt, including leases, generally should be recognized *when due*—that is, to the extent that portions of the debt mature during the reporting period. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus are not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets. Further, to accrue the debt service fund expenditure and liability in one period but record the transfer of financial resources for debt service purposes in a later period would be confusing and would result in overstatement of debt service fund expenditures and liabilities and understatement of the fund balance. Thus, disclosure of subsequent-year debt service requirements is appropriate, but they usually are appropriately accounted for as expenditures in the year of~~

⁷Other than “specific fund liabilities” of proprietary and trust funds. [GASBI 6, fn4]

⁸See Section 1500 for a general discussion of accounting for and financial reporting of long-term debt.

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~~payment. On the other hand, if debt service fund resources have been provided during the current year for payment of principal and interest due early in the following year, the expenditure and related liability may be recognized in the debt service fund, as discussed in the next paragraph. [NCGAS 1, ¶172; GASBI 6, ¶13, as amended by GASBS 87, ¶20] superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23~~

Additional recognition of debt service liabilities and expenditures

~~.121 The preceding paragraph explicitly applies to recognition in debt service funds. A government has “provided” financial resources to a debt service fund if it has deposited in or transferred to that fund financial resources that are dedicated for payment of debt service. “Early in the following year” refers to a short time period—usually one to several days and not more than one month. Accrual of an additional fund liability and expenditure is not permitted for (a) financial resources that are held in another governmental fund or (b) nondedicated financial resources transferred to a debt service fund at the discretion of management.⁹ [GASBI 6, ¶13] superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23~~

Fund Liabilities That Are “Normally Expected to Be Liquidated with Expendable Available Financial Resources”

~~.122 Governmental fund liabilities and expenditures for claims and judgments, compensated absences, termination benefits, landfill closure and postclosure care costs and other asset retirement obligations, and receipts of goods and services for pollution remediation should be recognized to the extent the liabilities are “normally expected to be liquidated with expendable available financial resources.”¹⁰ Governments, in general, are normally expected to liquidate liabilities with expendable available financial resources to the extent that the liabilities *mature* (come due for payment) each period. For all types of expenditures to which this criterion applies, the criterion for modified accrual recognition is whether and to what extent the liability has matured, independent of the method and timing of resource accumulation. [GASBI 6, ¶14, as amended by GASBS 47, ¶16, GASBS 49, ¶24, and GASBS 83, ¶24] superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23~~

Accumulation of net assets for future payments of unmatured liabilities

~~.123 Some governments follow a policy of budgeting on the accrual basis for compensated absences, landfill closure and postclosure care costs, or other forms of long-term indebtedness covered by the “normally expected” criterion (paragraph .122). Governments that follow that policy typically accumulate and earmark net assets~~

⁹Accumulations of financial resources that do not meet the criterion for recognition of an additional debt service fund liability and expenditure should be reported as part of fund balance. [GASBI 6, fn5]

¹⁰Variations on this term are (a) *normally would be liquidated with expendable available financial resources* (in paragraph .129 of this section for certain claims and judgments and for compensated absences) and (b) *payable with expendable available financial resources* (in Section C50, “Claims and Judgments,” paragraph .124, for claims and judgments within the scope of that section). These terms generally are synonymous with *normally expected to be liquidated with expendable available financial resources*. [GASBI 6, fn6]

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for eventual payment of incurred but unmatured liabilities. Other governments do not budget for these forms of long-term indebtedness on the accrual basis but accumulate and earmark net assets for eventual payment of some of their unmatured liabilities. ~~[GASBI 6, ¶15]~~ superseded by GASBS XX, ¶12, ¶13, and ¶20

~~.124~~ The accumulation of earmarked net assets in a governmental fund for eventual payment of unmatured general long-term indebtedness does not constitute an outflow of current financial resources and should not result in the recognition of an additional governmental fund liability or expenditure. Paragraphs ~~.103 and .104~~ of Section 1500 require that unmatured liabilities be reported as general long-term liabilities of the government. Accumulated amounts should be reported in the appropriate fund balance classification.¹¹ (See paragraphs ~~.168–.172~~ in Section 1800.) ~~[GASBI 6, ¶16, as amended by GASBS 54, ¶5]~~ superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23

“Other Commitments That Are Not Current Liabilities Properly Recorded in Governmental Funds”

~~.125~~ As discussed in paragraph ~~.118~~, *unmatured long-term indebtedness* includes “other commitments that are not current liabilities properly recorded in governmental funds.” The inclusion of “other commitments” acknowledges the possibility that new forms of general long-term indebtedness may be created from time to time, for which explicit recognition criteria have not yet been established. For such forms of liabilities, a fund liability and expenditure should be recognized when due, and the remainder should be reported as a general long-term liability. ~~[GASBI 6, ¶17]~~ superseded by GASBS XX, ¶12, ¶13, ¶20, and ¶23

Nonexchange Liabilities

~~.126–.122~~ Section N50 provides guidance on the recognition of liabilities arising from nonexchange transactions involving financial and capital resources, including certain grants and contributions. That section defines and uses four classes of nonexchange transactions. [GASBS 33, ¶5 and ¶7]

¹¹This section clarifies standards for *modified accrual* recognition of certain liabilities and expenditures in governmental fund financial statements. It is not intended either to promote or to discourage funding policies followed by individual governments. As discussed in paragraph ~~.103~~, the financial reporting model requires *accrual basis* recognition of liabilities and expenses including compensated absences, claims and judgments, termination benefits, landfill closure and postclosure care costs and other asset retirement obligations, and pollution remediation obligations in *government wide* financial statements. Governments that would prefer accrual basis reporting in *fund* financial statements, as well, might consider the possibility of, for example, reporting compensated absences or termination benefits through a trust fund or an internal service fund. ~~[GASBI 6, fn7, as amended by GASBS 47, ¶3 and ¶12–¶14, GASBS 49, ¶9, and GASBS 83, ¶8]~~ superseded by GASBS XX, ¶12 and ¶13

1600.127 *General Principles*
Other Expenditure Recognition Alternatives

~~.127 Other alternative expenditure recognition methods in governmental fund accounting, usually of a relatively minor nature, include:~~

- ~~a. Inventory items (for example, materials and supplies) may be considered expenditures either when purchased (purchases method) or when used (consumption method), but significant amounts of inventory should be reported in the balance sheet.~~
- ~~b. Expenditures for insurance and similar services extending over more than one accounting period need not be allocated between or among accounting periods, but may be accounted for as expenditures of the period of acquisition.~~

~~[NCGAS 1, ¶173, as amended by GASBS 6, ¶15] superseded by GASBS XX, ¶12 and ¶13~~

Encumbrances

~~.128~~ .123 Encumbrances—commitments related to unperformed (executory) contracts for goods or services—often should be recorded for budgetary control purposes, especially in general and special revenue resources funds. Encumbrances outstanding at year-end represent the estimated amount of the outflows of short-term financial resources ~~expenditures~~ ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute outflows of short-term financial resources ~~expenditures~~ or liabilities. (Encumbrances are discussed further in Section 1700, paragraph .127.) [NCGAS 1, ¶91, as amended by GASBS XX, ¶127 and ¶128]

Claims, Judgments, and Compensated Absences

~~.129 In governmental funds, the primary emphasis is on the flow of current financial resources, and expenditures are recognized on the modified accrual basis. Accordingly, the amount of claims, judgments, and compensated absences recorded as expenditures in governmental funds shall be the amount accrued during the year that would normally be liquidated with expendable available financial resources. Because governmental fund balance sheets reflect current liabilities, only the current portion of the liability should be reported in the fund. The current portion is the amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources. Governments, in general, are normally expected to liquidate liabilities with expendable available financial resources to the extent that the liabilities *mature* (come due for payment) each period. For example, *compensated absences* liabilities are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized, as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. The remainder of the liability should not be reported as liabilities in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position. See Sections C50 and C60, “Compensated Absences,” respectively, for complete~~

Basis of Accounting

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guidance. ~~[NCGAS 4, ¶16 and ¶17, as amended by GASBS 62, ¶96–¶113; GASBS 16, ¶13; GASBS 17, ¶6; GASBS 34, ¶82, as amended by GASBS 63, ¶8; GASBI 6, ¶14]~~ superseded by GASBS XX, ¶12 and ¶13

Economic Resources Measurement Focus and Accrual Basis of Accounting in Proprietary Fund Statements

~~.130~~ .124 Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented ~~using~~ applying the economic resources measurement focus and ~~the~~ accrual basis of accounting. [GASBS 34, ¶92, as amended by GASBS 63, ¶8 and GASBS XX, fn10]

~~.131~~ .125 Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured. Accordingly, revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts. In the absence of the circumstances¹²⁸ referred to above or other specific guidance, such as in paragraphs .101–.170 of Section R30, the installment method is not acceptable. [GASBS 62, ¶23]

Revenue Recognition When Right of Return Exists

~~.132~~ .126 Paragraphs ~~.132, 126–136~~ .130 specify criteria applicable to business-type activities and proprietary funds for recognizing revenue on an exchange transaction in which a product may be returned, whether as a matter of contract or as a matter of existing practice, either by the ultimate customer or by a party who resells the product to others. The product may be returned for a refund of the purchase price, for a credit applied to amounts owed or to be owed for other purchases, or in exchange for other products. The purchase price or credit may include amounts related to incidental services, such as installation. [GASBS 62, ¶3; GASBS 62, ¶24]

~~.133~~ .127 Paragraphs ~~.132, 126–136~~ .130 do not apply to (a) accounting for charges for services if part or all of the service revenue may be returned under cancellation privileges granted to the buyer, (b) transactions involving real estate or leases, or (c) exchange transactions in which a customer may return defective goods, such as under warranty provisions. [GASBS 62, ¶25]

¹²⁸There are exceptional cases in which receivables are collectible over an extended period of time and, because of the terms of the transactions or other conditions, there is no reasonable basis for estimating the degree of collectibility. When such circumstances exist, and as long as they exist, either the installment method or the cost recovery method of accounting may be used. (Under the cost recovery method, equal amounts of revenue and expense are recognized as collections are made until all costs have been recovered, postponing any recognition of income until that time.) [GASBS 62, fn8]

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General Principles

Criteria for Recognizing Revenue When Right of Return Exists

~~.134~~ .128 If a government sells its product but gives the buyer the right to return the product, revenue from the exchange transaction should be recognized at the time of the transaction only if all of the following conditions are met:

- a. The government's price to the buyer is substantially fixed or determinable at the date of the exchange transaction.
- b. The buyer has paid the government, or the buyer is obligated to pay the government and the obligation is not contingent on resale of the product.
- c. The buyer's obligation to the government would not be changed in the event of theft or physical destruction or damage of the product.
- d. The buyer acquiring the product for resale has economic substance apart from that provided by the government.¹³⁹
- e. The government does not have significant obligations for future performance to directly bring about resale of the product by the buyer.
- f. The amount of future returns¹⁴⁰ can be reasonably estimated (paragraph ~~.136~~ .130).

Revenue and costs associated with the exchange that are not recognized at the time of the exchange transaction because the foregoing conditions are not met should be recognized either when the return privilege has substantially expired or if those conditions subsequently are met, whichever occurs first. [GASBS 62, ¶26]

~~.135~~ .129 If revenue is recognized because the conditions of paragraph ~~.134~~ .128 are met, any costs or losses that may be expected in connection with any returns should be accrued in accordance with paragraph .151–.168 of Section C50. Revenue and costs associated with the exchange should be reduced to reflect estimated returns. [GASBS 62, ¶27]

~~.136~~ .130 The ability to make a reasonable estimate of the amount of future returns depends on many factors and circumstances that will vary from one case to the next. However, the following factors may impair the ability to make a reasonable estimate:

- a. The susceptibility of the product to significant external factors, such as technological obsolescence or changes in demand
- b. Relatively long periods in which a particular product may be returned

¹³⁹This condition relates primarily to buyers that exist “on paper,” that is, buyers that have little or no physical facilities or employees. It prevents governments from recognizing revenue on transactions with parties that the governments have established primarily for the purpose of recognizing such revenue. [GASBS 62, fn9]

¹⁴⁰Exchanges by ultimate customers of one item for another of the same kind, quality, and price (for example, one color or size for another) are not considered returns for purposes of applying paragraphs ~~.132~~ .121–~~.136~~ .125. [GASBS 62, fn10]

- a. Absence of historical experience with similar types of exchange transactions of similar products, or inability to apply such experience because of changing circumstances
- b. Absence of a large volume of relatively homogeneous transactions.

The existence of one or more of the above factors, in light of the significance of other factors, may not be sufficient to prevent making a reasonable estimate; likewise, other factors may preclude a reasonable estimate. [GASBS 62, ¶28]

~~.137.131~~ Section Re10, "Regulated Operations," may be applied to qualifying *enterprise* funds as discussed in paragraph .103 of Section P80. [GASBS 34, ¶95 and fn12, as amended by GASBS 62, ¶476–¶500]

Economic Resources Measurement Focus and Accrual Basis of Accounting in Fiduciary Fund Statements

~~.138.132~~ Financial statements of fiduciary funds should be ~~reported using presented applying~~ the *economic resources measurement focus* and the *accrual basis of accounting*. Paragraph .118 of Section Pe5 and paragraph .120 of Section Po50 provide guidance on recognition of certain liabilities of defined benefit pension and other postemployment benefit plans. For other fiduciary activities, a liability to the beneficiaries of a fiduciary activity should be recognized in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. [GASBS 34, ¶107, as amended by GASBS 67, ¶20, GASBS 73, ¶115 and ¶116, GASBS 74, ¶26, and GASBS 84, ¶18 and ¶21, GASBS 92, ¶8, and GASBS XX, fn10; GASBS 84, ¶22, ¶22, as amended by GASBS 92, ¶9]

Transfers

~~.139.133~~ Transfers of financial resources among funds should be reported in all funds affected in the period in which the interfund receivable(s) and payable(s) arise. Transfers are discussed further in Section 1800, "Classification and Terminology," paragraphs .102–.105. [NCGAS 1, ¶75]

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.601 See Section P20, paragraph .601, or Section P50, paragraph .601, for additional guidance regarding the recognition of certain liabilities and ~~expenditures~~ outflows of resources by employers in cost-sharing pension or OPEB plans and by governmental nonemployer contributing entities with a legal requirement to contribute to cost-sharing pension plans.

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GASB IMPLEMENTATION GUIDES

.701 Introduction

No questions assigned.

.702 Cash, Short-Term Financial Resources, and Economic Resources Measurement Focuses and Cash and Accrual Bases of Accounting

No questions assigned.

.703 Economic Resources Measurement Focus and Accrual-Basis Reporting of Accounting in Government-Wide Financial Statements

~~.703-1 Q Are governments required to use the “consumption” method of accounting for inventories in the government-wide statement of net position?~~

~~A Yes. The consumption method of inventory accounting is consistent with the economic resources measurement focus and the accrual basis of accounting required in the government-wide statements. Thus, if the government uses the purchases method in its governmental funds and the consumption method produces different results, the difference should be included in the reconciliations of governmental funds to governmental activities.~~

~~[GASBIG 2015-1, Q7-8.6] superseded by GASBS XX, ¶12~~

.704 Short-Term Financial Resources Measurement Focus and Modified-Accrual Basis of Accounting in Governmental Fund Statements

No questions assigned.

.705 Application of the Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting

~~.705 Revenue Recognition~~

No questions assigned.

.706 *Investment Income*

No questions assigned.

~~.707 Miscellaneous Revenues~~

No questions assigned.

~~.708.707 Nonexchange Revenues~~

No questions assigned.

1600.709

General Principles

~~.709 — Relation to Benefit Period~~

No questions assigned.

~~.710 — Accrual When Receipt Is Delayed~~

No questions assigned.

~~.711 — Amounts Received in Advance~~

No questions assigned.

~~.712 — Expenditure Recognition~~

No questions assigned.

~~.713 — Accrual in the Absence of an Applicable Modification~~

No questions assigned.

~~.714 — Long-Term Debt~~

No questions assigned.

~~.715 — Additional recognition of debt service liabilities and expenditures~~

No questions assigned.

~~.716 — Fund Liabilities That Are "Normally Expected to Be Liquidated with Expendable Available Financial Resources"~~

No questions assigned.

~~.717 — Accumulation of net assets for future payments of liabilities~~

No questions assigned.

~~.718 — "Other Commitments That Are Not Current Liabilities Properly Recorded in Governmental Funds"~~

No questions assigned.

~~.709.708~~ Nonexchange Liabilities

No questions assigned.

~~.720 Other Expenditure Recognition Alternatives~~

~~.720-1 Q Are governments required to use the “consumption” method of accounting for inventories in the government-wide statement of net position?~~

~~A Yes. The consumption method of inventory accounting is consistent with the economic resources measurement focus and the accrual basis of accounting required in the government-wide statements. Thus, if the government uses the purchases method in its governmental funds and the consumption method produces different results, the difference should be included in the reconciliations of governmental funds to governmental activities.~~

~~[GASBIC 2015-1, Q7.8.6] superseded by GASBS XX, ¶12~~

~~.710.709 Encumbrances~~

No questions assigned.

~~.711 Claims, Judgments, and Compensated Absences~~

No questions assigned.

~~.712.710 Economic Resources Measurement Focus and Accrual Basis of Accounting in Proprietary Fund Statements~~

No questions assigned.

~~.713.711 Revenue Recognition When Right of Return Exists~~

No questions assigned.

~~.714.712 Criteria for Recognizing Revenue When Right of Return Exists~~

No questions assigned.

~~.715.713 Economic Resources Measurement Focus and Accrual Basis of Accounting in Fiduciary Fund Statements~~

No questions assigned.

~~.716.714 Transfers~~

No questions assigned.

THE BUDGET AND BUDGETARY ACCOUNTING SECTION 1700

Sources: NCGAS 1, NCGAI 10, GASBS 34, GASBIG 2015-1, AICPA SLG 2002

See also: Section 1200, "Generally Accepted Accounting Principles and Legal Compliance"
Section 1800, "Classification and Terminology"
Section 2400, "Budgetary Reporting"
Section 2900, "Interim Financial Reporting"

Statement of Principle Budgeting and Budgetary Control

- a. An annual budget(s) should be adopted by every governmental unit.
- b. The accounting system should provide the basis for appropriate budgetary control.
- c. A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund or activity.

[NCGAS 1, ¶176; NCGAS 1, ¶123, as amended by GASBS 34, ¶15]

.101 Budgeting is an essential element of the financial planning, control, and evaluation processes of governments. Every governmental unit should prepare a comprehensive budget covering all governmental, proprietary, and fiduciary funds for each annual (or, in some states, biennial) fiscal period. [NCGAS 1, ¶177]

.102 The manner in which budgetary control should be achieved and reported on differs significantly as between proprietary and governmental funds and, to a lesser extent, among the several types of governmental funds. [NCGAS 1, ¶178]

.103 In most states and complex municipalities, agencies and departments submit budget requests to the chief executive or the budget officer. The chief executive, at a prescribed time, delivers an executive budget to the legislative body. Subject to a variety of limitations and procedures, the legislative body acts on the budget through the passage of appropriation bills or ordinances. The chief executive may have varying amendatory or veto powers, but ultimately, appropriation bills or ordinances when signed into law establish expenditure—budgetary outflow of resources and obligation authority. Such authority may subsequently be subject to allocation, allotment, transfer, modification, or supplementation. [NCGAI 10, ¶17, as amended by GASBS XX, ¶127]

.104 The budget commonly refers to the documents issued by the chief executive and/or the budget officer. However, the appropriated budget is the substance of the appropriation bills or ordinances enacted into law. There may be differences between the executive budget and the substance of the appropriations beyond those revisions that occur during the appropriation process. The executive budget may include organizations, programs, activities, and functions not subject to appropriation. Conversely, there may be governmental organizations, programs, activities, and functions subject to appropriation that are not included in the executive budget. [NCGAI 10, ¶8]

.105 On adoption, the ~~expenditure~~ budgetary outflow of resources estimates in the annual budget, as modified by the legislative body, are enacted into law through the passage of an appropriation act(s) or ordinance(s). The appropriations constitute maximum ~~expenditure~~ budgetary outflow of resources authorizations during the fiscal year, and cannot legally be exceeded unless subsequently amended by the legislative body. ~~Unused expended~~ and/or unencumbered appropriations may lapse at the end of a fiscal year or may continue as authority for subsequent period ~~expenditures~~ budgetary outflows of resources, depending on the applicable legal provisions. [NCGAS 1, ¶86, as amended by GASBS XX, ¶127]

Types of Budgets

Time Span of Budgets

.106 Defined in its most general sense, a budget is a plan of financial operation for a given period of time. Two types of budgets in terms of time span, annual budgets and long-term budgets, are commonly found in contemporary public financial administration. [NCGAS 1, ¶79]

.107 The *annual* budget authorizes, and provides the basis for control of, financial operations during the fiscal year. This is the type of budget recommended, whether or not required by law, and that should be appropriately controlled through the accounting system to assure effective budgetary control and accountability. [NCGAS 1, ¶80]

.108 *Long-term* budgets present estimates of ~~revenue~~ budgetary inflows of resources and budgetary outflows of resources ~~expenditures or expenses (as appropriate)~~ for a period of several years—usually four to six—and the proposed means of financing them. They are *planning* documents that typically emphasize major program or capital outlay plans, the latter being referred to as capital improvement programs or capital budgets. [NCGAS 1, ¶81, as amended by GASBS XX, ¶127]

Fixed and Flexible Budgets

.109 Budgets may also be categorized as either “fixed” or “flexible.” *Fixed* budgets embody estimates of specific (fixed) dollar amounts. *Flexible* budgets embody dollar estimates that vary according to demand for the goods or services provided. [NCGAS 1, ¶82]

Governmental Fund Budgeting and Budgetary Control

.110 The primary emphasis of the annual budgetary and appropriations process of most governmental units is on planning and controlling the financial operations of the governmental funds. For this reason, and because proprietary fund budgeting parallels that of business enterprises, this section addresses primarily governmental fund budgeting and budgetary control. [NCGAS 1, ¶183]

.111 Whereas the demand for goods and services largely determines the revenues available to finance proprietary funds, this is not the case with most activities financed and accounted for through governmental funds. To the contrary, the financial resources available to the governmental funds (through taxes, licenses, and so forth) during the period are substantially unrelated to the demand for the goods and services financed through them. [NCGAS 1, ¶184]

.112 The planning process involves determining the types and levels of services to be provided and allocating available resources among various government departments, programs, or functions. Fixed budgeting is found more often in practice than flexible budgeting, and the financial control and evaluation processes typically focus on assuring that these fixed ~~expenditure~~budgetary outflow of resources limitations are not exceeded and on comparing estimated and actual ~~revenues~~budgetary inflows of resources. [NCGAS 1, ¶185, as amended by GASBS XX, ¶127]

Levels of Budgetary Control and Authority

.113 The three possible levels of budgetary control and authority to which organizations, programs, activities, and functions may be subject are:

- a. "Appropriated budget"; or
- b. Legally authorized "nonappropriated budget" review and approval process, which is outside the "appropriated budget" process; or
- c. Nonbudgeted financial activities, which are not subject to "appropriated budget" and the appropriation process or to any legally authorized "nonappropriated budget" review and approval process, but still are relevant for sound financial management and oversight.

[NCGAI 10, ¶10]

.114 The following definitions are applicable for the purposes of budgetary comparisons presented in ~~basic financial statements or~~ required supplementary information:

Executive Budget: The aggregate of information, proposals, and estimates prepared and submitted to the legislative body by the chief executive and the budget office.

Appropriated Budget: The ~~expenditure~~ budgetary outflows of resources authority created by the appropriation bills or ordinances that are signed into law and related estimated ~~revenue~~ budgetary inflows of resources. Appropriated budgets include both original and final budgets:

- a. The *original budget* is the first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances.
- b. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Nonappropriated Budget: A financial plan for an organization, program, activity, or function approved in a manner authorized by constitution, charter, statute, or ordinance but not subject to appropriation and therefore outside the boundaries of the definition of “appropriated budget.”

Budgetary Execution and Management: All other suballocations, contingency reserves, recisions, deferrals, transfers, conversions of language appropriations, encumbrance controls, and allotments established by the executive branch, without formal legislative enactment. These transactions may be relevant for various accounting control and internal reporting purposes, but are not part of the appropriated budget.

[NCGAI 10, ¶11, as amended by GASBS XX, ¶ 27; GASBS 34, ¶6; GASBS 34, and ¶130, as amended by GASBS XX, ¶ 34]

Governmental Fund Budgets—Basis of Accounting

.115 State constitutions, statutes, political subdivisions, charters, and local ordinances assign the responsibility of the budgeting process and establish budgetary authority. The scope and method of state and local government budgetary practices are outside the scope of financial reporting standards. [NCGAI 10, ¶6]

.116 Budgetary compliance is a paramount consideration in government. ~~Ideally, the basis on which the budget is prepared should be consistent with the basis of accounting used. The basis on which the budget is prepared establishes the basis on which the accounts usually are maintained and the budgetary reports must be prepared. It is recommended that governmental fund annual budgets be prepared on the modified accrual basis. Many of the modifications or adaptations of the accrual concept in its application to governmental accounting and reporting are similar to typical governmental fund budgetary practices. Thus, often there will be few differences, if any, between the budgetary basis and the modified accrual basis.~~ [NCGAS 1, ¶78 and ¶87] superseded by GASB XX, ¶ 12

.117 Preparation of the budget on the cash basis or another basis not consistent with generally accepted accounting principles (GAAP) complicates financial management and reporting. Where legal requirements dictate another basis, governmental units typically (a) maintain the accounts and prepare budgetary reports on the legally prescribed budgetary basis to determine and to demonstrate legal compliance, and (b) maintain sufficient supplemental records to permit presentation of financial statements in conformity with GAAP. [NCGAS 1, ¶188]

Budgetary Account Integration

.118 Formal budgetary accounting is a management control technique used to assist in controlling ~~expenditure~~budgetary outflows of resources and enforcing ~~revenue~~budgetary inflows of resource provisions. Although governmental fund accounting is often referred to as “budgetary accounting,” budgetary accounting procedures *per se* do not affect measurement of revenue inflows of resources and ~~expenditure outflows of resources~~measurement. Budgetary accounting techniques are an extremely important control aspect of accounting for general, special ~~revenue~~resources, and similar governmental funds, because the annual budget is a legal compliance standard against which the operations of such funds are evaluated. Integration of budgetary accounts in fund ledgers is a useful procedural adaptation of the usual governmental fund accounting equation and system to serve important interim managerial control purposes. (Similar adaptations may readily be made, and sometimes are made, to provide budgetary control in private business accounting systems.) When their interim managerial control purposes have been served, the budgetary account balances are reversed in the process of closing the books at year-end. Budgetary accounting procedures thus have no effect on the financial position of a governmental fund or on the changes in its fund balance (financial position). [NCGAS 1, ¶189, as amended by GASBS XX, ¶ 27 and ¶128]

.119 The extent to which budgetary accounts should be integrated in the formal accounting system varies among governmental fund types and according to the nature of fund transactions. Integration is essential in general, special ~~revenue~~resources, and other annually budgeted governmental funds that have numerous types of ~~revenues, expenditures, and transfers~~inflows of resources and outflows of resources. Judgment should be used in other circumstances. For example, full or partial budgetary account integration would be essential where numerous construction projects are being financed through a capital projects fund or where such projects are being constructed by the government’s labor force. On the other hand, where such funds are used to finance one or a few “turnkey” projects adequately controlled by contracts with independent contractors, formal budgetary account integration might not serve a useful purpose. Likewise, it would not be necessary in controlling most debt service funds, where the amounts required to be received and ~~used~~expended are set forth in bond indentures or sinking fund provisions and few transactions occur each year. [NCGAS 1, ¶190, as amended by GASBS 6, ¶13 and GASBS XX, ¶ 27 and ¶128]

Proprietary Fund Budgeting and Budgetary Control

.120 The nature of most operations financed and accounted for through proprietary funds is such that the demand for the goods and services provided largely determines the appropriate level of revenues and expenses. Increased demand for the goods or services causes a higher level of expenses to be incurred, but also results in a higher level of revenues. Thus, as in commercial accounting, flexible budgets—prepared for several levels of possible activity—typically are better for proprietary fund planning, control, and evaluation purposes than are fixed budgets. Ideally, the basis on which the budget is prepared should be consistent with the measurement focus and basis of accounting used. [NCGAS 1, ¶78, as amended by GASBS XX, fn10; NCGAS 1, and ¶94]

.121 When formally adopted, the expense estimates of flexible budgets typically are not viewed as appropriations but as approved plans. Budgetary control and evaluation are affected by comparing actual interim or annual revenues and expenses with planned revenues and expenses at the actual level of activity for the period. [NCGAS 1, ¶95]

.122 Fixed dollar budgets typically are not adopted for proprietary funds. Thus, integration of fixed dollar budgetary accounts usually is neither necessary nor appropriate in proprietary fund accounting systems. [NCGAS 1, ¶96]

.123 In some instances, fixed dollar budgets are adopted for proprietary funds either because of local legal requirements or in order to control certain expenditure budgetary outflows of resources (for example, capital outlay). In such cases, it may be appropriate to integrate budgetary accounts into the proprietary fund accounting system in a manner similar to that discussed for governmental funds in paragraphs .118 and .119. [NCGAS 1, ¶97, as amended by GASBS XX, ¶127]

Common Terminology and Classification

.124 The budget, the accounts, and the financial reports are inseparable elements in the financial administration process. Terminology and classification consistency among them is essential to achieving viable accounting systems and comparable, unambiguous financial reporting. [NCGAS 1, ¶124]

Governmental Funds

.125 The budget determines the nature and scope of most governmental fund financial operations by setting the amounts and sources of estimated revenue budgetary inflows of resources and transfers in, on the one hand, and the amounts and purposes of authorized expenditure budgetary outflows of resources and transfers out, on the other. The accounts of several types of governmental funds record, in summary and detail, both the planned revenue budgetary inflows of resources, and expenditure budgetary outflows of resources, and transfers, and the actual transactions. In the absence of significant conflicts between legal provisions and generally accepted accounting principles, the financial statements summarize the results of financial operations and financial position as reflected in the accounts. Where legal provisions conflict with GAAP, legal-basis data typically are

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reflected in the accounts and are used as the starting point for deriving statements prepared in conformity with GAAP. [NCGAS 1, ¶125, as amended by GASBS XX, ¶127]

.126 Effective management control and accountability for governmental funds can best be achieved by using a common language and uniform classification system in financial planning, management, and reporting. To the maximum extent practicable, the suggested terminology and classifications presented in Section 1800 should be used consistently in all phases of budgeting, accounting, and reporting. [NCGAS 1, ¶126]

Encumbrances

.127 Encumbrances—commitments related to unperformed (executory) contracts for goods or services—often should be recorded for budgetary control purposes, especially in general and special ~~revenue-resources~~ funds. Encumbrance *accounting and reporting* may be summarized as follows:

- a. Encumbrance accounting should be used to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control.
- b. Encumbrances outstanding at year-end represent the estimated amount of the ~~expenditure outflows of resources~~ ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute ~~expenditures outflows of resources~~ or liabilities.
- c. Significant encumbrances should be disclosed in the notes to the financial statements by major funds and nonmajor funds in the aggregate in conjunction with required disclosures about other significant commitments. Encumbering amounts for specific purposes for which resources already have been restricted, committed, or assigned should not result in separate display of the encumbered amounts within those classifications. Encumbered amounts for specific purposes for which resources have not been previously restricted, committed, or assigned should not be classified as unassigned but, rather, should be included within committed or assigned fund balance, as appropriate, based on the definitions and criteria in paragraphs .170–.176 of Section 1800.
- d. If performance on an executory contract is complete, or virtually complete, an expenditure-outflow of resources and liability should be recognized rather than an encumbrance.

[NCGAS 1, ¶91, as amended by GASBS 54, ¶24 and GASBS XX, ¶127 and ¶128]

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GASB IMPLEMENTATION GUIDES

.701 Introduction

No questions assigned.

.702 Types of Budgets

No questions assigned.

.703 Time Span of Budgets

No questions assigned.

.704 Fixed and Flexible Budgets

No questions assigned.

.705 Governmental Fund Budgeting and Budgetary Control

No questions assigned.

.706 Levels of Budgetary Control and Authority

No questions assigned.

.707 Governmental Fund Budgets—Basis of Accounting

.707-1 Q—Some funds that are maintained as special ~~revenue-resources~~ funds for accounting purposes do not meet the criteria for separate reporting in external financial statements and therefore should be presented as part of the general fund or a qualifying special ~~revenue-resources~~ fund. Should the budgetary information relative to those funds be included in the general fund or qualifying special ~~revenue-resources~~ fund budgetary comparison?

A—No. The information in the budgetary comparison should be the legally adopted budget for the general fund or major special ~~revenue-resources~~ fund. The additional ~~revenue~~budgetary inflows of resources and ~~expenditure~~budgetary outflows of resources pertaining to the other funds result from perspective differences and should be explained in the reconciliation of budgetary information to generally accepted accounting principles information.

[GASBIG 2015-1, QZ.54.41, as amended by GASBS XX, ¶27 and ¶28]

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General Principles

.708 Budgetary Account Integration

No questions assigned.

.709 Proprietary Fund Budgeting and Budgetary Control

No questions assigned.

.710 Common Terminology and Classification

No questions assigned.

.711 Governmental Funds

No questions assigned.

.712 Encumbrances

No questions assigned.

The Budget and Budgetary Accounting

1700.801

~~AICPA LITERATURE CLEARED BY THE GASB~~

~~General Fund or Major Special Revenue Fund Budgets Not Legally Required~~

~~.801 If the government chooses to present its required budgetary comparison information in the basic financial statements, [disclosure that a budget is not adopted for the general fund or a major special revenue fund because it is not legally required and, therefore, presentation of budgetary comparison information is not required] should be made in the notes to the financial statements [to explain why what might appear to be required information is not part of the presentation]. [AICPA SLG 2002, ¶11.16 and ¶14.56, fn19] superseded by GASBS XX, ¶133~~

CLASSIFICATION AND TERMINOLOGY

SECTION 1800

Sources: NCGAS 1, GASBS 6, GASBS 7, GASBS 34, GASBS 37,
GASBS 46, GASBS 51, GASBS 54, GASBS 62, GASBS 63, GASBS 87, GASBS 96, GASBS XX,
GASBI 1, GASBIG 2015-1, GASBIG 2016-1, GASBIG 2017-3, GASBIG 2019-1,
AICPA SLG 2002

See also: Section 1400, "Reporting Capital Assets"
Section 2200, "Comprehensive Annual Financial Report"
Section 2500, "Segment Information"
Section D30, "Demand Bonds"
Section L20, "Leases"
Section P80, "Proprietary Fund Accounting and Financial Reporting"
Section S40, "Special Assessments"

Statements of Principle

Inflow of Resources and Outflow of Resources~~Transfer, Revenue, Expenditure, and Expense~~ Account Classification

- a. At a minimum, the statement of activities should present:
 - (1) Activities accounted for in governmental funds by function, as discussed in paragraph ~~.134133~~, to coincide with the level of detail required in the governmental fund statement of short-term financial resource flows~~revenues, expenditures, and changes in fund balances~~
 - (2) Activities accounted for in enterprise funds by *different identifiable activities*.
- b. Governmental fund inflows of short-term financial resources~~revenues~~ should be classified by fund and source. Outflows of short-term financial resources~~Expenditures~~ should be classified by fund, function (or program), organization unit, activity, character, and principal classes of objects.
- c. Proprietary fund revenues should be reported by major sources, ~~and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.~~ Revenues and expenses should be distinguished as operating, noncapital subsidy, and other nonoperating.
- d. Proceeds of general long-term debt issues should be classified separately from other noncurrent inflows of resources in the governmental fund financial statements.
- e. Contributions to term and permanent endowments, contributions to permanent fund principal, other capital contributions, unusual or infrequent~~special and extraordinary~~ items, and transfers between governmental and business-type activities should each be reported separately from, but in the same manner as, general revenues in the

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government-wide statement of activities. In the proprietary fund statement of revenues, expenses, and changes in fund net position, contributions to term and permanent endowments and capital contributions~~these items~~ should be reported as other~~separately after~~ nonoperating revenues and expenses. In proprietary funds, transfers should be reported as noncapital subsidies or as other~~after~~ nonoperating revenues and expenses. In proprietary funds, unusual or infrequent items should be reported separately after other nonoperating revenues and expenses. Transfers should be classified separately from other inflows of resources and other outflows of resources~~revenues and expenditures~~ in the governmental fund statement of short-term financial resource flows. Unusual or infrequent~~revenues, expenditures, and changes in fund balances. Special and extraordinary~~ items should be reported separately after “net flows from noncurrent activities~~other financing sources and uses~~” in the governmental fund statement of short-term financial resource flows~~revenues, expenditures, and changes in fund balances.~~

[NCGAS 1, ¶199, as amended by GASBS XX, ¶122, ¶123, ¶127 and ¶130; GASBS 34, ¶16, as amended by GASBS XX, ¶127~~¶188, and ¶189~~; GASBS 34, ¶153, as amended by GASBS 63, ¶18 and GASBS XX, ¶110; GASBS 34, ¶188, as amended by GASBS XX, ¶19 ~~¶101,~~

and ¶127; GASBS 34, ¶189~~¶112~~, as amended by GASBS XX, ¶19, ¶110, and ¶127~~¶63, ¶18~~; GASBS 34, ¶1100, as amended by GASBS 48, ¶21, ~~and~~ GASBS 63, ¶18, and GASBS XX, ¶129; GASBS 34, ¶112, as amended by GASBS 63, ¶18 and GASBS XX, ¶127 and ¶130; GASBS 37, ¶110, as amended by GASBS XX, ¶11; GASBS XX, ¶130]

Common Terminology and Classification

A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund or activity. [NCGAS 1, ¶123, as amended by GASBS 34, ¶15]

Introduction

.101 Use of proper terminology and appropriate classification is essential throughout the budgeting, accounting, and reporting processes. It is especially important that (a) transfers be distinguished from other inflows of short-term financial resources or revenues and other outflows of short-term financial resources~~revenues and expenditures~~ or expenses in the basic financial statements, (b) proceeds of general long-term debt issues be distinguished from other governmental fund noncurrent inflows of short-term financial resources~~revenues and expenditures~~, and (c) the terms *revenues* and *expenses*, as used in the government-wide financial statements and in proprietary and trust fund financial statements, be distinguished from the terms *inflows of short-term financial resources and outflows of short-term financial resources*~~revenues and expenditures~~ as used in the governmental fund financial statements and that their distinctive meanings be understood by all concerned with governmental budgeting,

accounting, and reporting. [NCGAS 1, ¶100, as amended by GASBS 34, ¶6, ¶92, and ¶107 and GASBS XX, ¶22, ¶23, and ¶27; GASBS 34, ¶53; GASBS 34, ¶88, as amended by GASBS XX, ¶27; GASBS 34, ¶112, as amended by GASBS XX ¶22, ¶23, and ¶27]

Reporting Interfund Activity in Fund Financial Statements

.102 Interfund activity within and among the three fund categories (governmental, proprietary, and fiduciary) should be classified and reported as follows:

- a. *Reciprocal interfund activity* is the internal counterpart to exchange and exchange-like transactions. It includes:

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- (1) *Interfund loans*—amounts provided with a requirement for repayment. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds. This activity should not be reported as ~~current other financing sources~~ or ~~noncurrent activities~~ uses in the fund financial statements. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.
 - (2) *Interfund services provided and used*—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as inflows of short-term financial resources or revenues in seller funds and outflows of short-term financial resources ~~expenditures~~ or expenses in purchaser funds.¹ Unpaid amounts should be reported as interfund receivables and payables in the fund balance sheets or fund statements of net position.
- b. *Nonreciprocal interfund activity* is the internal counterpart to nonexchange transactions. It includes:
- (1) *Interfund transfers*—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. This category includes payments in lieu of taxes that are not payments for, and are not reasonably equivalent in value to, services provided. In governmental funds, transfers should be reported as noncurrent activity for other financing uses in the funds making transfers related to the purchase of capital assets and repayment of long-term debt except for long-term debt issued for short-term purposes. All other as other financing sources in the funds receiving transfers in governmental funds should be reported as current activities. In proprietary funds, transfers should be reported as noncapital subsidies or as other ~~after~~ nonoperating revenues and expenses as discussed in paragraphs .113 and .114 of Section P80.
 - (2) *Interfund reimbursements*—repayments from the funds responsible for particular outflows of short-term financial resources ~~expenditures~~ or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.

[GASBS 34, ¶112, as amended by GASBS 63, ¶8 and GASBS XX, ¶22, ¶23, ¶27 and ¶30]

Reporting Internal Activities and Balances in Government-Wide Financial Statements

.103 Eliminations should be made in the statement of net position to minimize the “grossing-up” effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, amounts reported in the funds as interfund receivables and payables, or as deferred inflows of resources and deferred outflows of resources resulting from intra-entity transactions as discussed in Section S20, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,” paragraph .111, should be eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities,

¹However, Section C50, "Claims and Judgments," paragraph .126, requires that when the general fund is used to account for risk-financing activity, interfund charges to other funds should be accounted for as reimbursements. [GASBS 34, fn45]

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which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the statement of net position as receivable from and payable to external parties (consistent with the nature of fiduciary funds), rather than as internal balances. All internal balances should be eliminated in the total primary government column. [GASBS 34, ¶58, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

.104 Eliminations should be made in the statement of activities to remove the “doubling-up” effect of internal service fund activity. The effect of similar internal events (such as allocations of accounting staff salaries) *that are, in effect, allocations of overhead expenses* from one function to another or within the same function also should be eliminated, so that the allocated expenses are reported only by the function to which they were allocated. [GASBS 34, ¶59]

.105 The effect of interfund services provided and used (see paragraph .102) between functions—for example, the sale of water or electricity from a utility to the general government—should not be eliminated in the statement of activities. To do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. [GASBS 34, ¶60]

Reporting Intra-Entity Activity and Balances in Government-Wide Financial Statements

.106 Resource flows between the primary government and *blended* component units should be reclassified in accordance with the provisions of paragraph .102 as internal activity in the financial statements of the reporting entity. Resource flows (except those that affect the statement of financial position only, such as loans, repayments, and deferred inflows of resources and deferred outflows of resources resulting from intraentity transactions as discussed in Section S20, paragraph .111) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. However, amounts payable and receivable between the primary government and its discretely presented component units or between those components should be reported on a separate line. [GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

Reporting Internal Service Fund Balances in Government-Wide Financial Statements

.107 Internal service fund asset and liability balances that are not eliminated in the statement of net position should normally be reported in the *governmental* activities column. Although internal service funds are reported as proprietary funds, the activities accounted for in them (the financing of goods and services for other funds of the government) are usually more governmental than business-type in nature. If enterprise funds are the predominant or only participants in an internal service fund, however, the government should report that internal service fund’s residual assets, deferred outflows of resources,

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liabilities, and deferred inflows of resources within the business-type activities column in the statement of net position. [GASBS 34, ¶62, as amended by GASBS 63, ¶7 and ¶8]

Statement of Net Position Classification in Government-Wide and Proprietary Fund Financial Statements

.108 Paragraphs .109–.123 apply only when a government is preparing a classified statement of net position for accounting and financial reporting purposes. Paragraphs .113–.122 also apply to disclosures made about maturities of obligations reported in both classified and unclassified statements of net position. [GASBS 62, ¶29, as amended by GASBS 63, ¶8]

Current Assets

.109 For accounting and financial reporting purposes, the term *current assets* is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year. Therefore, current assets generally include such resources as (a) cash available for current operations and items that are the equivalent of cash; (b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts; (c) trade accounts, notes, and acceptances receivable; (d) receivables from taxpayers, other governments, vendors, customers, beneficiaries, and employees, if collectible within a year; (e) installment or accounts and notes receivable if they conform generally to normal trade practices and terms within the business-type activity; (f) marketable securities representing the investment of cash available for current operations; and (g) prepayments such as insurance, interest, rents, unused royalties, current paid advertising service not yet received, and operating supplies. Prepayments are not current assets in the sense that they will be converted into cash but in the sense that, if not paid in advance, they would require the use of current assets within a year. [GASBS 62, ¶30, as amended by GASBS 65, ¶31]

.110 This concept of the nature of current assets contemplates the exclusion from that classification of such resources as (a) cash and claims to cash that are restricted as to withdrawal or use for other than current operations, that are designated for disbursement in the acquisition or construction of noncurrent assets, or that are segregated² for the liquidation of long-term debts; (b) receivables arising from unusual transactions (such as the sale of capital assets) that are not expected to be collected within 12 months;

²Even though not actually set aside in special accounts, resources that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes also should, under this concept, be excluded from current assets. However, where such resources are considered to offset maturing debt that has properly been set up as a current liability, they may be included within the current asset classification. [GASBS 62, fn11]

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(c) cash surrender value of life insurance policies; (d) land and other natural resources; and (e) depreciable assets. [GASBS 62, ¶31, as amended by GASBS 65, ¶31]

.111 Unearned discounts (other than cash or quantity discounts and the like), finance charges, and interest included in the face amount of receivables should be shown as a deduction from the related receivables. [GASBS 62, ¶32]

Classification and Disclosure of Allowances

.112 Asset valuation allowances for losses, such as those on receivables, should be deducted from the assets or groups of assets to which the allowances relate, with appropriate disclosure. [GASBS 62, ¶33]

Current Liabilities

.113 The term *current liabilities* is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a category in the statement of net position, the classification is intended to include obligations for items that have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in providing services; collections received in advance of the performance of services;³ and debts that arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, and royalties. Other liabilities whose regular and ordinary liquidation is expected to occur within one year also are intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be ~~used~~^{expended} within one year under sinking fund provisions, and certain obligations arising from the collection or acceptance of cash or other assets for the account of third parties. The current liability classification also is intended to include obligations that, by their terms, are due on demand or will be due on demand within one year from the date of the financial statements,⁴ even though liquidation may not be expected within that period.⁵ It also is intended to include long-term obligations that are or will be callable⁶ by the creditor either because the debtor's violation

³Examples of such current liabilities are obligations resulting from advance collections on ticket sales, which normally will be liquidated in the ordinary course of operations by the delivery of services, or security deposits received for providing water, electric, sewer, or cable service. On the contrary, obligations representing long-term deferments of the delivery of services would not be shown as current liabilities. An example of the latter is the advance receipt by a lessor of the lease payment for the final period of a 10-year lease as a condition to execution of the lease agreement. [GASBS 62, fn12, as amended by GASBS 87, ¶53]

⁴*Date of the financial statements* means the end of the most recent accounting period for which financial statements are being presented. [GASBS 62, fn13]

⁵Specific guidance for demand bonds is provided in Section D30, paragraph .108. [GASBS 62, fn14]

⁶An obligation is *callable* at a given date if the creditor has the right at that date to demand, or to give notice of its intention to demand, repayment of the obligation owed to it by the debtor. [GASBS 62, fn15]

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of a provision⁷ of the debt agreement at the date of the financial statements makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable. Accordingly, such callable obligations should be classified as current liabilities unless one of the following conditions is met:

- a. The creditor has waived⁸ or subsequently lost⁹ the right to demand repayment for more than one year from the date of the financial statements.
- b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable¹⁰ that the violation will be cured within that period, thus preventing the obligation from becoming callable.

Short-term obligations that are expected to be refinanced on a long-term basis, including those callable obligations discussed herein, should be classified in accordance with paragraphs .115–.123. [GASBS 62, ¶34, as amended by GASBS 63, ¶8, GASBS 84, ¶5, and GASBS XX, ¶27]

.114 This concept of current liabilities should include estimated or accrued amounts that are expected to be required to cover disbursements within the year for known obligations (a) the amount of which can be determined only approximately (as in the case of provisions for accruing bonus payments) or (b) in which the specific person or persons to whom payment will be made cannot as yet be designated (as in the case of estimated costs to be incurred in connection with guaranteed servicing or repair of products already sold). The current liability classification, however, is not intended to include debts to be liquidated by resources that have been accumulated in accounts of a type not properly classified as current assets, or long-term obligations incurred to provide increased amounts of working capital for long periods. When the amounts of the periodic payments of an obligation are, by contract, measured by current transactions, as, for example, by rents or revenues received in the case of equipment trust certificates or by the depletion of natural resources in the case of property obligations, the portion of the total obligation to be included as a current liability should be that representing the amount accrued at the date of the financial statements. [GASBS 62, ¶35]

Classification of Short-Term Obligations Expected to Be Refinanced

.115 For purposes of applying paragraphs .108–.123, *short-term obligations* are those that are scheduled to mature within one year after the date of a

⁷A *violation of a provision* is the failure to meet a condition in a debt agreement or a breach of a provision in the agreement for which compliance is objectively determinable, whether or not a grace period is allowed or the creditor is required to give notice of its intention to demand repayment. [GASBS 62, fn16]

⁸If the obligation is callable because of violations of certain provisions of the debt agreement, the creditor needs to waive its right with regard only to those violations. [GASBS 62, fn17]

⁹For example, the debtor has cured the violation after the date of the financial statements and the obligation is not callable at the time the financial statements are issued. [GASBS 62, fn18]

¹⁰*Probable* is defined in paragraph .155 of Section C50 as “likely to occur” and is used in the same sense in this paragraph. [GASBS 62, fn19]

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government's financial statements. *Long-term obligations* are those scheduled to mature beyond one year from the date of a government's financial statements. *Refinancing a short-term obligation on a long-term basis* means either replacing it with a long-term obligation or renewing, extending, or replacing it with short-term obligations for an uninterrupted period extending beyond one year from the date of a government's financial statements. Accordingly, despite the fact that the short-term obligation is scheduled to mature during the ensuing fiscal year, it will not require the use of working capital during that period. [GASBS 62, ¶36]

Classification

.116 Short-term obligations arising from transactions in the normal course of operations that are due in customary terms should be classified as current liabilities. [GASBS 62, ¶37]

.117 A short-term obligation other than one classified as a current liability in accordance with paragraph .116 should be excluded from current liabilities only if the following conditions are met:¹¹

- a. The government intends to refinance the obligation on a long-term basis. (See paragraph .115.)
- b. The government has the ability to consummate the refinancing. (See paragraph .118.)

[GASBS 62, ¶38]

Ability to Consummate the Refinancing

.118 The government's intent to refinance the short-term obligation on a long-term basis is supported by an ability to consummate the refinancing demonstrated in either of the following ways:

- a. *Issuance of a long-term obligation after the date of the financial statements.* After the date of a government's financial statements but before those financial statements are issued, a long-term obligation has been issued for the purpose of refinancing the short-term obligation on a long-term basis; or
- b. *Financing agreement.* Before the financial statements are issued, the government has entered into a financing agreement that clearly permits the government to

¹¹Consistent with paragraph .116 and footnote 2, resources obtained on a long-term basis prior to the date of the financial statements would be excluded from current assets if the obligation to be liquidated is excluded from current liabilities. [GASBS 62, fn20]

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refinance the short-term obligation on a long-term basis on terms that are readily determinable, and all of the following conditions are met:

- (1) The agreement does not expire within one year from the date of the government's financial statements and during that period the agreement is not cancelable by the lender or the prospective lender (and obligations incurred under the agreement are not callable during that period) except for violation of a provision with which compliance is objectively determinable or measurable.¹²
- (2) No violation of any provision in the financing agreement exists at the date of the financial statements and no available information indicates that a violation has occurred thereafter but prior to the issuance of the financial statements, or, if one exists at the date of the financial statements or has occurred thereafter, a waiver has been obtained.
- (3) The lender or the prospective lender with which the government has entered into the financing agreement is expected to be financially capable of honoring the agreement.

[GASBS 62, ¶39]

.119 If a government's ability to consummate an intended refinancing of a short-term obligation on a long-term basis is demonstrated by issuance of a long-term obligation after the date of the financial statements (paragraph .118a), the amount of the short-term obligation to be excluded from current liabilities should not exceed the proceeds of the new long-term obligation. If the ability to refinance is demonstrated by the existence of a financing agreement (paragraph .118b), the amount of the short-term obligation to be excluded from current liabilities should be reduced to the amount available for refinancing under the agreement when the amount available is less than the amount of the short-term obligation. The amount to be excluded should be reduced further if information (such as restrictions in other agreements or restrictions as to transferability of resources) indicates that resources obtainable under the agreement will not be available to liquidate the short-term obligation. Further, if amounts that could be obtained under the financing agreement fluctuate (for example, in relation to the government's needs, in proportion to the value of collateral, or in accordance with other terms of the agreement), the amount to be excluded from current liabilities should be limited to a reasonable estimate of the minimum amount expected to be available at any date from the scheduled maturity of the short-term obligation to the end of the fiscal year. If no reasonable estimate can be made, the entire outstanding short-term obligation should be included in current liabilities. [GASBS 62, ¶40]

.120 The government may intend to seek an alternative source of financing rather than to exercise its rights under the existing agreement when the short-term obligation

¹²Financing agreements cancelable for violation of a provision that can be evaluated differently by the parties to the agreement (such as "a material adverse change" or "failure to maintain satisfactory operations") do not comply with this condition. [GASBS 62, fn21]

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becomes due. The government should intend to exercise its rights under the existing agreement, however, if that other source does not become available.¹³
[GASBS 62, ¶41]

.121 Replacement of a short-term obligation with another short-term obligation after the date of the financial statements but before the financial statements are issued is not, by itself, sufficient to demonstrate a government's ability to refinance the short-term obligation on a long-term basis. If, for example, the replacement is made under the terms of a revolving credit agreement that provides for renewal or extension of the short-term obligation for an uninterrupted period extending beyond one year from the date of the financial statements, the revolving credit agreement is required to meet the conditions in paragraph .118b to justify excluding the short-term obligation from current liabilities. Similarly, if the replacement is another short-term obligation accompanied by a "stand-by" credit agreement, the stand-by agreement is required to meet the conditions in paragraph .118b to justify excluding the short-term obligation from current liabilities. [GASBS 62, ¶42]

.122 Repayment of a short-term obligation *before* resources are obtained through a long-term refinancing requires the use of current assets. Therefore, if a short-term obligation is repaid after the date of the financial statements and subsequently a long-term obligation whose proceeds are used to replenish current assets before the financial statements are issued, the short-term obligation should not be excluded from current liabilities at the date of the financial statements. [GASBS 62, ¶43]

.123 A total of current liabilities should be presented in classified statements of net position. [GASBS 62, ¶44, as amended by GASBS 63, ¶8]

Terminology and Classification Consistency in Governmental Fund Financial Statements

General Long-Term Debt Issue Proceeds

.124 Proceeds of long-term debt issues not recorded as fund liabilities—for example, the face amount of bonds or notes ~~used~~^{expended} through capital projects or debt service funds—normally should be reported in "Net Flows from Noncurrent Activities"~~reflected as "Other Financing Sources"~~ in the operating statement of the recipient fund. Such amounts should be reported in captions such as "Bonds Issued" or "Long-Term Notes Issued." The proceeds of a special assessment issue for which the government is *not* obligated in any manner should be identified by a description other than "bond proceeds," such as "contribution from property owners," in accordance with Section S40, paragraph .119. General long-term debt issue premiums or discounts and certain payments to escrow agents for bond refundings

¹³The intent to exercise may not be present if the terms of the agreement contain conditions or permit the prospective lender to establish conditions, such as interest rates or collateral requirements that are unreasonable to the government. [GASBS 62, fn22]

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should also be reported in net flows from noncurrent activities, as other financing sources and uses. [NCGAS 1, ¶108, as amended by GASBS XX, ¶127; GASBS 6, ¶19; GASBS 34, ¶188, as amended by GASBS 37, ¶16 and GASBS XX, ¶127]

.125 For current and advance refundings resulting in defeasance of general long-term debt, the face amount of the new debt should be reported in net flows from noncurrent activities ~~as an "other financing source—refunding bonds"~~ in the fund receiving the proceeds. Payments to the escrow agent from resources provided by the new debt should be reported in net flows from noncurrent activities, as an "other financing use—payment to refunded bond escrow agent." Payments to the escrow agent made from other resources of the entity should be reported in net flows from noncurrent activities, as debt service expenditures. (See Section D20, "Debt Extinguishments and Troubled Debt Restructuring.") [GASBS 7, ¶18, as amended by GASBS 34, ¶182 and ¶188, GASBS 37, ¶16, and GASBS XX, ¶127 ~~¶18, as amended by GASBS 34, ¶182 and ¶188; GASBS 37, ¶16~~]

Other General Long-Term Debt Transactions

.126 Debt issue costs paid out of debt proceeds, such as underwriter fees, should be reported as outflows of short-term financial resources ~~expenditures.~~ Issue costs, such as attorney and rating agency fees or bond insurance, paid from existing resources should be reported as outflows of short-term financial resources. ~~expenditures when the related liability is incurred.~~ [GASBS 34, ¶187, as amended by GASBS XX, ¶123]

Demand Bonds

.127 As required by Section D30, if certain conditions are not met when demand bonds are issued, the liability for those bonds should be reported as a liability of the fund used to account for the proceeds of the bond issue. If those conditions change and it is necessary to report a fund liability for demand bonds previously reported as general long-term debt, the liability should be reported as a liability of the fund in which the proceeds of the issue were initially reported with a corresponding debit to "net flows from noncurrent activities." ~~"other financing uses."~~ Redemptions of demand bonds reported as fund liabilities should be reported as a credit to "net flows from noncurrent activities." ~~"other financing sources."~~ (See Section D30 for additional information.) [GASBI 1, ¶10; GASBI 10, and ¶13, as amended by GASBS XX, ¶127]

Lease Transactions

.128 Governmental fund lease payments associated with long-term transactions should be accounted for consistent with principles for debt service payments on long-term debt. [GASBS 87, ¶36, as amended by GASBS XX, ¶123]

Subscription-Based Information Technology Arrangement Transactions

.128.129 For subscription-based information technology arrangements, an expenditure and other financing source should be reported in the period the subscription asset is initially recognized. The expenditure and other financing

source should be measured as provided in paragraphs .113–.115 of Section S80, “Subscription-Based Information Technology Arrangements.” Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt. [GASBS 96, ¶59]

Capital Asset Sales

~~.129, 130~~ Sales of capital assets (unless the sale meets the criteria for reporting as an unusual or infrequent special item, as defined in paragraph .146), should be reported as inflows of resources from noncurrent activities ~~other financing sources~~ in governmental funds. [GASBS 34, ¶88, as amended by GASBS XX, ¶9 and ¶27]

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Revenue and Expenditure Classification of Inflows of Resources and Outflows of Resources

~~130.~~ 131. Perhaps the most distinctive and significant aspect of governmental fund accounting is that the ~~operations~~—measurement focus is on inflows, outflows~~sources, uses,~~ and balances of fund financial resources. Current activities are all activities ~~In this context, the term revenues means increases in (sources of) fund financial resources—other than noncurrent activities. Noncurrent activities are activities related to the purchase from interfund transfers and disposal of capital assets~~~~debt issue proceeds and redemptions of demand bonds; and the issuance and repayment~~term expenditures means decreases in (uses of) fund financial resources other than through interfund transfers and expirations of demand bond takeout agreements. (See Section D30, paragraph 109.) Revenue and expenditure accounts thus reflect the changes in the financial condition of capital-related liabilities (for example, leases) and a governmental fund that occur during a given time period except those arising from transfers and general long-term debt except for long-term debt issued for short-term purposes.~~issuance and issuances of special assessment bonds, refunding bonds, and certain demand bonds.~~ [NCGAS 1, ¶109, as amended by GASBS XX, ¶126, ¶19 and ¶127; GASBS XX, ¶127-7, ¶18; GASBI 1, ¶113]

Revenue Classification of Inflows of Resources

~~131.~~ 132. The primary classification of governmental fund inflows of resources~~revenues~~ is by fund and source. Major inflow~~revenue~~ source classifications are taxes, licenses and permits, intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous. Governmental units often classify inflows of resources~~revenues~~ by organization units—departments, bureaus, divisions, or other administrative agencies—depending on the organization structure. This classification may be desirable for purposes of management control and accountability, as well as for auditing purposes, but should supplement rather than supplant the classifications by fund and source. [NCGAS 1, ¶110, as amended by GASBS XX, ¶127]

Expenditure Classification of Outflows of Resources

~~132.~~ 133. Multiple classification of governmental fund outflows of resources~~expenditure~~ data is important from both internal and external management control and accountability standpoints. It facilitates the aggregation and analysis of data in different ways for different purposes and in manners that cross fund and organization lines, for internal evaluation, external reporting, and intergovernmental comparison purposes. The major accounting classifications of outflows of resources~~expenditures~~ are by fund, function (or program), organization unit, activity, ~~character,~~ and object class, and into current and noncurrent activities. [NCGAS 1, ¶111, as amended by GASBS XX, ¶127]

~~133.~~ 134. *Function or program* classification provides information on the overall purposes or objectives of outflows of resources~~expenditures~~. Functions group related activities that are aimed at accomplishing a major service or

regulatory responsibility. Programs group activities, operations, or organizational units that are directed to the attainment of specific purposes or objectives. Governmental units using program budgeting may use the program classifications and subclassifications in addition to or instead of functional classifications. [NCGAS 1, ¶112, as amended by GASBS XX, ¶27]

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~~134~~ 135 Classification of outflows of resource~~expenditures~~ by *organization unit* is essential to responsibility accounting. This classification corresponds with the governmental unit's organization structure. A particular organization unit may be charged with carrying out one or several activities or programs. Moreover, the same activity or program is sometimes carried on by several organization units because of its inherent nature or because of faulty organization structure. [NCGAS 1, ¶113, as amended by GASBS XX, ¶127]

~~135~~ 136 Activity classification is particularly significant because it facilitates evaluation of the economy and efficiency of operations by providing data for calculating outflows of resource~~expenditures~~ per unit of activity. That is, the outflow of resource~~expenditure~~ requirements of performing a given unit of work can be determined by classifying outflows of resource~~expenditures~~ by activities and providing for performance measurement where such techniques are practicable. These outflow of resource~~expenditure~~ data, in turn, can be used in preparing future budgets and in setting standards against which future outflow of resource~~expenditure~~ levels can be evaluated. Thus, each of the above types of classification—function (or program), organization unit, and activity—provides useful information. [NCGAS 1, ¶114, as amended by GASBS 34, ¶122, ¶138, and ¶180, and GASBS XX, ¶127]

~~134~~ Expenditures should be further classified by *character*, that is, on the basis of the fiscal period they are presumed to benefit. The major character classifications of expenditures are "Current Expenditures," which benefit the current fiscal period; "Capital Outlays," which are presumed to benefit both the present and future fiscal periods; and "Debt Service," which presumably benefits prior fiscal periods as well as current and future periods. "Intergovernmental," a fourth character classification, is appropriate where one governmental unit transfers resources to another, such as when states transfer "shared revenues" to local governments or act as an intermediary in federally financed programs. Character classification may be accomplished by grouping the object classifications, discussed below, which are subdivisions of the character classifications. [NCGAS 1, ¶115], superseded by GASBS XX, ¶127

~~136~~ 137 Finally, expenditures Outflows of resources should be classified by *object classes*, that is, according to the types of items purchased or services obtained. Examples of "Current Operating" objects of outflow of resource~~expenditure~~ classifications are personal services, supplies, and other services and charges. ("Capital Outlays" and "Debt Service" also are major objects of outflow of resource~~expenditure~~ classifications.) Excessively detailed object classifications should be avoided because they complicate the accounting procedure and are of limited use in financial management. Use of few object classifications is sufficient because budget preparation and control emphasis should be on organization units, functions (or programs), and activities rather than on objects of outflows of resource~~expenditure~~ *per se*. [NCGAS 1, ¶116, as amended by GASBS XX, ¶127]

138 Current activities are all activities other than noncurrent activities. Noncurrent activities are activities related to the purchase and disposal of capital assets and the issuance and repayment of capital-related liabilities (for example, leases) and

long-term debt except for long-term debt issued for short-term purposes. [GASBS
XX, ¶27]

Proprietary Fund Revenue and Expense Classification

~~137.139~~ 139 The proprietary fund statement of revenues, expenses, and changes in fund
net position should distinguish between operating and nonoperating revenues and

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expenses, as discussed in Section P80, beginning in paragraph .113, as well as separately report noncapital subsidies (a type of nonoperating revenue and expense). Proprietary fund revenues should be reported by major sources. [GASBS 34, ¶100, as amended by GASBS XX, ¶29; GASBS XX, ¶2963, ¶18]

Classification of Expenses and Revenues in the Government-Wide Statement of Activities

~~.138, .140~~ At a minimum, the statement of activities should present:

- a. Activities accounted for in governmental funds by function,¹⁴ as discussed in paragraph .133, to coincide with the level of detail required in the governmental fund statement of short-term financial resource flows ~~revenues, expenditures, and changes in fund balances~~
- b. Activities accounted for in enterprise funds by *different identifiable activities*.¹⁵

[GASBS 37, ¶10, as amended by GASBS XX, ¶27]

~~.139, .141~~ Governments are encouraged to provide data in the statement of activities at a more detailed level if the additional detail provides more useful information without significantly reducing readers' ability to understand the statement. No specific level of detail is appropriate for all governments; some have hundreds of programs and others have only a few. Therefore, reporting in greater detail than the minimum requirements in paragraph .139 may be practical for some governments but not for others. [GASBS 34, ¶40]

Expenses

~~.140, .142~~ Governments should report all expenses by function except for those that meet the definitions of unusual, special, or infrequent ~~extraordinary~~ items, discussed in ~~paragraphs .145 and .146~~. As a minimum, governments should report direct expenses for each function.

¹⁴The term *function* is used in this section to refer to the minimum level of detail for *both* governmental and business-type activities required to be presented in the statement of activities. [GASBS 34, fn27]

¹⁵An activity within an enterprise fund is *identifiable* if it has a specific revenue stream and related expenses and gains and losses that are accounted for separately. Determining whether an activity is *different* may require the use of professional judgment, but is generally based on the goods, services, or programs provided by an activity. For example, providing natural gas is different from supplying water or electricity, even though all three are regarded as "utility services." On the other hand, separate identifiable water districts would not be considered "different" activities, even though they may serve different parts of the government. For higher education institutions reported in enterprise funds, the variety of activities common to those institutions—for example, food service, bookstore, residence halls, and student unions—generally would not be required to be reported separately. One consideration in contrasting the higher education situation with the utility example is the fact that gas, water, and electric utilities each deliver a different product or service. Gas distribution is not part of a water supply system, generation of electricity is not a component of a gas distribution system, and so on. In the higher education setting, the various activities might be considered supplemental or secondary to the delivery of the primary service—higher education. [GASBS 37, ¶10]

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Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. [GASBS 34, ¶141, as amended by GASBS XX, ¶9]

Program Revenues

~~.141.~~143 Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. The statement of activities should separately report three categories¹⁶ of program revenues: (a) charges for services, (b) program-specific *operating* grants and contributions, and (c) program-specific *capital* grants and contributions. For identifying the function to which a program revenue pertains, the determining factor for *charges for services* is which function *generates*¹⁷ the revenue. For *grants and contributions*, the determining factor is the function to which the revenues are *restricted*. [GASBS 34, ¶48; GASBS 37, ¶12]

General Revenues

~~.142.~~144 All revenues are *general revenues* unless they are required to be reported as program revenues, as discussed in paragraph .142 and in Section 2200, paragraphs .137 through ~~.140~~139. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax—for example, sales tax, property tax, franchise tax, income tax. All other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues. General revenues should be reported after total net expense of the government's functions. [GASBS 34, ¶52]

Reporting Contributions to Term and Permanent Endowments, Contributions to Permanent Fund Principal, Transfers, ~~Special and Unusual or Infrequent~~ Extraordinary Items, and Transfers

~~.143.~~145 Contributions to term and permanent endowments, contributions to permanent fund principal, ~~special and extraordinary items (defined in paragraphs .145 and .146), and transfers (defined in paragraph .102) between governmental and business-type activities, and unusual or infrequent items (defined in paragraph .146~~145 ~~)~~—should each be reported separately from, but in the same manner as, general revenues. That is, these sources of financing the net cost of the government's programs should be reported at the bottom of the statement of activities to arrive at the all-inclusive change in net position for the period. [GASBS 34, ¶53, as amended by GASBS 63, ¶8 and GASBS XX, ¶10]

¹⁶More than one column may be used to display components of a program revenue category. Governments may also provide more-descriptive category headings to better explain the range of program revenues reported therein (for example, *Operating grants, contributions, and restricted interest*). [GASBS 37, ¶12]

¹⁷In some instances it may be difficult or impractical to identify a specific function that generates a program revenue. For example, in many jurisdictions fines could be attributed to either a public safety or judicial function. If the source of a program revenue is not clear, governments should adopt a classification policy for assigning those revenues and apply it consistently. [GASBS 37, ¶12]

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Reporting Unusual or Infrequent ~~Extraordinary and Special~~ Items in Government-Wide Statement of Activities

~~.146 Unusual or infrequent~~Extraordinary items are transactions or other events that are unusual in nature or infrequent in occurrence ~~or both, unusual in nature and infrequent in occurrence~~. Paragraphs .147–.151 define the terms *unusual in nature* and *infrequency of occurrence*. [GASBS XX, ¶9]

~~.144.147~~ Governments ~~As discussed in paragraph .144, extraordinary items should present unusual or infrequent items individually as be reported separately at the last presented flowbottom of resources prior to the net change in resource flows in the statement of activities. Governments should disclose in notes to the financial statements the program or function or identifiable activity to which the unusual or infrequent item is related, if applicable, and whether that item was within the control of management. [GASBS XX, ¶10]~~GASBS 34, ¶55, as amended by GASBS 62, ¶45–¶49]

~~.145~~ Significant transactions or other events *within the control of management* that are ~~either unusual in nature or infrequent in occurrence~~ are *special items*. ~~Special items should also be reported separately in the statement of activities, before extraordinary items, if any. In addition, governments should disclose in the notes to financial statements any significant transactions or other events that are either unusual or infrequent but not within the control of management. [GASBS 34, ¶56]~~

~~.145.148~~ Judgment is required to determine which items should be segregated in the flows statement¹⁸ for the effects of events or transactions that are ~~unusualspecial or infrequentextraordinary~~ items. An event or transaction should be presumed to be an ordinary and usual activity of the government, unless the evidence clearly supports its classification as an unusuala special or infrequentextraordinary item as defined in paragraph .149~~148~~. [GASBS 62, ¶45, as amended by GASBS XX, ¶9 and ¶10]

~~.146.149~~ ~~Unusual or infrequentSpecial and extraordinary~~ items are events and transactions that are distinguished either by their unusual nature or by the infrequency of their occurrence, ~~or both~~. The following criteria should be met to classify an event or transaction as either unusual in nature or infrequent in occurrence:

- a. *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates. (See paragraph .149.)
- b. *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates. (See paragraph .150.)

[GASBS 62, ¶46, as amended by GASBS XX, ¶9]

¹⁸Paragraphs .147–.151 apply to accounting and financial reporting for governmental activities, business-type activities, and proprietary funds. Those paragraphs also apply to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds. Therefore, for purposes of applying paragraphs .147–.151, the term *flows statement* includes the government-wide statement of activities; the governmental fund statement of short-term financial resource flows~~of revenues, expenditures, and changes in fund balances~~; and the proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 62, ¶3; GASBS 62, fn23, as amended by GASBS 63, ¶8 and GASBS XX, ¶11]

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.150 *Unusual Nature.* The specific characteristics of the government, such as type and scope of operations and operating policies, should be considered in determining ordinary and typical activities of the government. The environment in which a government operates is a primary consideration in determining whether an underlying event or transaction is abnormal and significantly different from the ordinary and typical activities of the government. The environment of a government includes such factors as the characteristics of its business-type activities, the geographical location of its operations, and the nature and extent of governmental regulation. Thus, an event or transaction may be unusual in nature for one government but not for another because of differences in their respective environments. Unusual nature is not established by the fact that an event or transaction is beyond the control of management. [GASBS 62, ¶47]

.151 *Infrequency of Occurrence.* For purposes of applying paragraphs .147–.151, an event or transaction of a type not reasonably expected to recur in the foreseeable future is considered to occur infrequently. Determining the probability of recurrence of a particular event or transaction in the foreseeable future should take into account the environment in which a government operates. Accordingly, a specific transaction of one government might meet that criterion, and a similar transaction of another government might not because of different probabilities of recurrence. The past occurrence of an event or transaction for a particular government provides evidence to assess the probability of recurrence of that type of event or transaction in the foreseeable future. [GASBS 62, ¶48]

.152 Certain gains and losses should not be reported as unusual or infrequent ~~extraordinary~~ items because they are usual in nature ~~and~~ may be expected to recur as a consequence of customary and continuing operations. Examples include:

- a. Write-down or write-off of receivables, inventories, equipment leased to others, or intangible assets
- b. Gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations
- c. Other gains or losses from sale or abandonment of capital assets used in operations
- d. Effects of a strike, including those against major suppliers
- e. Adjustment of accruals on long-term contracts.

In rare situations, an event or transaction may occur that clearly meets one of the both criteria specified in paragraph .149~~148~~ and, thus, gives rise to an unusual or infrequent ~~extraordinary~~ gain or loss that includes one or more of the gains or losses enumerated above. In these circumstances, gains or losses such as (a) and (c), above, should be reported as an unusual or infrequent ~~included in the extraordinary~~ item if they are a direct result of a major casualty (such as an earthquake) or a prohibition under a newly enacted law or regulation that clearly meets one or both criteria specified in paragraph .149~~148~~. However, any portion of such losses that would have resulted from a valuation of assets on a going-concern basis should not be reported as an unusual or infrequent item ~~included in the extraordinary items~~. [GASBS 62, ¶49, as amended by GASBS XX, ¶19]

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Reporting ~~Unusual or Infrequent~~ **Extraordinary and Special** Items in Fund Financial Statements

.153 In governmental fund statements of short-term financial resource flows, ~~unusual or infrequent revenues, expenditures, and changes in fund balances, special and extraordinary items~~ (defined in ~~paragraphs 145 and 146~~) should be reported ~~individually~~ separately after "net flows from noncurrent activities." ~~other financing sources and uses.~~ If more than one occurs ~~both occur~~ during the same period, ~~unusual or infrequent special and extraordinary~~ items should be reported ~~individually~~ separately within an "unusual or infrequent" ~~"special and extraordinary items"~~ classification. ~~(Because inflows~~ Significant transactions or events that are either unusual or infrequent but not within the control of short-term financial resources and outflows of short-term financial resources ~~management should be separately identified within the appropriate revenue or expenditure category in the statement of revenues, expenditures, and changes in fund balances or disclosed in the notes to financial statements. (Because other financing sources and uses, rather than gains or losses, are reported for debt refundings in governmental funds, these transactions should not be reported as~~ unusual or infrequent ~~extraordinary~~ items in governmental funds.) Unusual or infrequent ~~Special and extraordinary~~ items in the proprietary fund statement of revenues, ~~expenses~~ expenditures, and changes in fund net position should be reported individually, as the last presented flow of resources prior to the net change in resource flows, ~~separately, after nonoperating revenues and expenses.~~ [GASBS 34, ¶89, as amended by GASBS XX, ¶9, ¶10, ¶22, ¶23, and ¶27; GASBS 34, ¶100, as amended by GASBS 63, ¶8 ~~and, as amended by GASBS XX, ¶10; GASBS XX, ¶10~~]

Reporting Assets and Liabilities in Government-Wide Financial Statements

.154 Assets and liabilities should not be offset in the government-wide statements of net position except where a right of offset exists. [GASBS 62, ¶501 and fn232, as amended by GASBS 63, ¶8]

Reporting Assets and Liabilities in Proprietary Funds

.155 Assets and liabilities should not be offset in the proprietary fund statement of fund net position except where a right of offset exists. [GASBS 62, ¶501 and fn232, as amended by GASBS 63, ¶8]

Reporting Net Position in Government-Wide Financial Statements

.156 Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components—*net investment in capital assets, restricted* (distinguishing between major categories of restrictions), and *unrestricted*. [GASBS 63, ¶8]

Net Investment in Capital Assets Component of Net Position

.157 The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation,¹⁹ reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition,

¹⁹As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

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construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflow of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount. [GASBS 63, ¶9]

Restricted Component of Net Position

.158 Net position should be reported as restricted when constraints placed on net position use are either:²⁰

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling legislation.

Enabling legislation,²¹ as the term is used in this section, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) *and* includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The amount of the primary government's net position at the end of the reporting period that are restricted by enabling legislation should be disclosed in the notes to the financial statements. [GASBS 34, ¶34 and GASBS 46, ¶6, as amended by GASBS 63, ¶8; GASBS 63, ¶10]

Determining Legal Enforceability

.159 Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining

²⁰Because different measurement focuses and bases of accounting are used in the government-wide statement of net position than in governmental fund statements, amounts reported as *restricted fund balances* in governmental funds may be different from amounts reported as *restricted net position* in the statement of net position. [GASBS 34, fn24, as amended by GASBS 54, ¶8 and GASBS 63, ¶8]

²¹Enabling legislation also includes restrictions on asset use established by a governmental utility's own governing board when that utility reports based on Section Re10, "Regulated Operations." [GASBS 34, fn25, as amended by GASBS 62, ¶476–¶500]

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the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable. [GASBS 46, ¶3]

Changes in Circumstances Related to Enabling Legislation

- .160 If a government passes new enabling legislation that *replaces* the original enabling legislation by establishing new legally enforceable restrictions on the resources raised by the original enabling legislation, then from that period forward the resources accumulated under the new enabling legislation should be reported as restricted to the purpose specified by the new enabling legislation. Professional judgment should be used to determine if remaining balances accumulated under the original enabling legislation should continue to be reported as restricted for the original purpose, restricted to the purpose specified in the new legislation, or unrestricted. [GASBS 46, ¶4]
- .161 If resources are used for a purpose other than those stipulated in the enabling legislation or if there is other cause for reconsideration, governments should reevaluate the legal enforceability of the restrictions to determine if the resources should continue to be reported as restricted. If reevaluation results in a determination that a particular restriction is no longer legally enforceable, then from the beginning of that period forward the resources should be reported as unrestricted. If it is determined that the restrictions continue to be legally enforceable, then for the purposes of financial reporting, the restricted net position should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation. [GASBS 46, ¶5, as amended by GASBS 63, ¶8]
- .162 When permanent endowments, permanent fund principal amounts, or minority interest in a component unit are included, the restricted component of net position should be displayed in two additional components—expendable and nonexpendable. Nonexpendable net position is required to be retained in perpetuity or represents minority interests in component units. [GASBS 34, ¶35, as amended by GASBS 61, ¶12 and GASBS 63, ¶8]

Unrestricted Component of Net Position

- .163 The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. [GASBS 63, ¶11]

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.164 In the governmental environment, resources are often assigned or committed to specific purposes, indicating that those amounts are not considered to be available for general operations. In contrast to *restricted* amounts, these types of constraints on resources are *internal* and can be removed or modified. As described in paragraph .157, however, *enabling legislation* established by the reporting government should not be construed as an *internal constraint*. Assignments and commitments should not be reported on the face of the statement of net position. [GASBS 34, ¶37, as amended by GASBS 54, ¶10–¶16 and GASBS 63, ¶8]

Reporting Restrictions in Proprietary Funds

.165 Net position of proprietary funds should be displayed in three components—*net investment in capital assets*, *restricted* (distinguishing between major categories of restrictions), and *unrestricted*. Paragraphs .156–.163 define these terms for purposes of determining the amount to be reported in the various components of net position. Capital contributions should not be displayed as a separate component of net position. Designated amounts of net position should not be reported on the face of the financial statements. [GASBS 34, ¶98, as amended by GASBS 63, ¶8]

Governmental Fund Reporting

Fund Balance Reporting

.166 Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications discussed in paragraphs .170–.177 and therefore would not report amounts in all possible fund balance classifications. [GASBS 54, ¶5]

Nonspendable Fund Balance

.167 The nonspendable fund balance classification includes interfund loans receivable arising from long-term events and amounts that are cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. ~~The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale.~~ However, if the use of the proceeds from the collection of those receivables ~~or from the sale of those properties~~ is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact. [GASBS 54, ¶6, as amended by GASBS XX, ¶12 and ¶19]

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.168 For purposes of reporting net position, paragraph .161 requires amounts that are “required to be retained in perpetuity” to be classified as “nonexpendable” within the restricted net position category. For fund balance reporting purposes, however, those amounts should be classified as nonspendable rather than restricted. [GASBS 54, ¶7, as amended by GASBS 63, ¶8]

Restricted Fund Balance

.169 Except as provided for in paragraph .167, amounts that are restricted to specific purposes, pursuant to the definition of *restricted* in paragraph .157, should be reported as *restricted fund balance*. Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling

legislation. [GASBS 54, ¶8]

.170 *Enabling legislation*, as the term is used in this section, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation. *Legal enforceability* means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation. [GASBS 54, ¶9]

Committed Fund Balance

.171 Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. [GASBS 54, ¶10]

.172 In contrast to fund balance that is restricted by enabling legislation, as discussed in paragraph .169, amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process, as explained in paragraph .170. Constraints imposed on the use of *committed* amounts are imposed by the government,

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separate from the authorization to raise the underlying inflows of short-term financial resources revenue. Therefore, compliance with constraints imposed by the government that *commit* amounts to specific purposes is not considered to be legally enforceable, as defined in paragraph .169. [GASBS 54, ¶11, as amended by GASBS XX, ¶12]

.173 The formal action of the government's highest level of decision-making authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period. [GASBS 54, ¶12]

Assigned Fund Balance

.174 Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements, as discussed in paragraph .181. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. [GASBS 54, ¶13]

.175 Both the committed and assigned fund balance classifications include amounts that have been constrained to being used for specific purposes by actions taken by the government itself. However, the authority for making an assignment is not required to be the government's highest level of decision-making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regard to the committed fund balance classification. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Some governments may not have both committed and assigned fund balances, as not all governments have multiple levels of decision-making authority. [GASBS 54, ¶14]

.176 Assigned fund balance includes (a) all remaining amounts (except for negative balances, as discussed in paragraph .179) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose in accordance with the provisions in paragraph .173. By reporting particular amounts that are not restricted or committed in a special resources revenue, capital projects, debt service, or permanent fund, the government has *assigned* those amounts to the purposes of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the government itself. However, governments should not report an assignment for an amount to a specific purpose if the assignment would result in a deficit in unassigned fund balance. [GASBS 54, ¶15, as amended by GASBS XX, ¶128]

.177 An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess

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of budgetary outflows of resources over budgetary inflows of resources~~of expected expenditures over expected revenues~~ satisfies the criteria to be classified as an assignment of fund balance. As discussed in paragraph .175, assignments should not cause a deficit in unassigned fund balance to occur. [GASBS 54, ¶16, as amended by GASBS XX, ¶27]

Unassigned Fund Balance

.178 Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if outflows of short-term financial resources~~expenditures~~ incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance, as discussed in paragraph .179. [GASBS 54, ¶17, as amended by GASBS XX, ¶23]

Classifying Fund Balance Amounts

.179 Fund balance classifications should depict the nature of the net resources that are *reported* in a governmental fund. An individual governmental fund could include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. Typically, the general fund also would include an unassigned amount. A government should determine the composition of its ending fund balance by applying its accounting policies regarding whether it considers restricted or unrestricted amounts to have been spent when an outflow of short-term financial resources~~expenditure~~ is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, the classification should be based on the government's accounting policies regarding whether it considers committed, assigned, or unassigned amounts to have been spent when an outflow of short-term financial resources~~expenditure~~ is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. If a government does not establish a policy for its use of unrestricted fund balance amounts, it should consider that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when outflows of short-term financial resources~~expenditures~~ are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. [GASBS 54, ¶18, as amended by GASBS XX, ¶23]

.180 The amount that should be reported as nonspendable fund balance, as described in paragraph .166, should be determined before classifying amounts in the restricted, committed, and assigned fund balance classifications, as discussed in paragraph .178. In a governmental fund other than the general fund, outflows of short-term financial resources~~expenditures~~ incurred for a specific purpose might exceed the

amounts in the fund that are restricted, committed, and assigned to that purpose and a negative residual balance for that purpose may result. If that occurs, amounts assigned to other purposes in that fund should be reduced to eliminate the deficit. If the remaining deficit eliminates all other assigned amounts in the fund, or if there are no amounts assigned to other purposes, the negative residual amount should be classified as *unassigned* fund balance. In the general fund,

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a similar negative residual amount would have been eliminated by reducing unassigned fund balance pursuant to the policy described in paragraph .178. A negative residual amount should not be reported for restricted, committed, or assigned fund balances in any fund. [GASBS 54, ¶19, as amended by GASBS XX, ¶123]

Stabilization Arrangements

.181 Some governments formally set aside amounts for use in emergency situations or when ~~revenue shortages or~~ budgetary imbalances arise. Those amounts are subject to controls that dictate the circumstances under which they can be spent. Many governments have formal arrangements to maintain amounts for budget ~~or revenue~~ stabilization,²² working capital needs, contingencies or emergencies, and other similarly titled purposes. The authority to set aside those amounts generally comes from statute, ordinance, resolution, charter, or constitution. Stabilization amounts may be ~~used~~expended only when certain specific circumstances exist. The formal action that imposes the parameters for spending should identify and describe the specific circumstances under which a need for stabilization arises. Those circumstances should be such that they would not be expected to occur routinely. For example, a stabilization amount that can be accessed “in an emergency” would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed, and it is not unlikely that an “emergency” of some nature would routinely occur. Similarly, a stabilization amount that can be accessed to offset an “anticipated ~~budgetary revenue~~ shortfall” would not qualify unless the shortfall was quantified and was of a magnitude that would distinguish it from other ~~budgetary revenue~~ shortfalls that occur during the normal course of governmental operations. [GASBS 54, ¶20, as amended by GASBS XX, ¶127]

.182 For the purposes of reporting fund balance, stabilization is considered a *specific purpose*, as discussed in paragraph .165. Stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria set forth in paragraphs .168–.171, based on the source of the constraint on their use. Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance classifications should be reported as *unassigned* in the general fund. A stabilization arrangement would satisfy the criteria to be reported as a separate special ~~resources revenue~~ fund only if the resources derive from a specific restricted or committed source of inflows of short-term financial resources from current activities other than transfers~~revenue source~~, as required by paragraph .105 of Section 1300, “Fund Accounting.” [GASBS 54, ¶21, as amended by GASBS XX, ¶128]

²² Throughout this section, the term *stabilization* is used to refer to economic ~~stabilization, revenue~~ stabilization, budgetary stabilization, and other similarly intended (including “rainy-day”) arrangements. [GASBS 54, fn1, as amended by GASBS XX, ¶127]

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Displaying Fund Balance Classifications on the Face of the Short-Term Financial Resources Balance Sheets

.183 Amounts for the two components of nonspendable fund balance—interfund loans receivable arising from long-term events—~~(a) not in spendable form~~ and ~~amounts that are~~^(b) legally or contractually required to be maintained intact—as described in paragraph .166, may be presented separately, or nonspendable fund balance may be presented in the aggregate. Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate. Similarly, specific purposes information for committed and assigned fund balances may be displayed in sufficient detail so that the major commitments and assignments are evident to the financial statement user, or each classification may be displayed in the aggregate. [GASBS 54, ¶22, as amended by GASBS XX, ¶12]

Fund Balance Disclosures

Fund Balance Classification Policies and Procedures

.184 Governments should disclose the following about their fund balance classification policies and procedures in ~~the~~ notes to ~~the~~ financial statements:

- 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 in accordance with paragraph .178: (1) whether the government considers restricted or unrestricted amounts to have been used~~spent~~ when an outflow of short-term financial resources~~expenditure~~ 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 used~~spent~~ when an outflow of short-term financial resources~~expenditure~~ is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

[GASBS 54, ¶23, as amended by GASBS XX, ¶23]

Reporting Encumbrances

.185 For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and nonmajor funds in the aggregate in conjunction with required disclosures about other significant commitments. Encumbered amounts for specific purposes for which resources already have been restricted, committed, or assigned should not result in separate display of the encumbered amounts within those

classifications. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned should not be classified as unassigned but, rather, should be included

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within committed or assigned fund balance, as appropriate, based on the definitions and criteria in paragraphs .170–.176. [GASBS 54, ¶24]

Details of Fund Balance Classifications Displayed in the Aggregate

.186 If nonspendable fund balance is displayed in the aggregate on the face of the short-term financial resources balance sheet, amounts for the two nonspendable components should be disclosed in the notes to the financial statements. If restricted, committed, or assigned fund balances are displayed in the aggregate, specific purposes information, as required in paragraph .182, should be disclosed in the notes to the financial statements. Governments may display the specific purpose details for some classifications on the face of the short-term financial resources balance sheet, as discussed in paragraph .182, and disclose the details for other classifications in the notes to the financial statements. [GASBS 54, ¶25, as amended by GASBS XX, ¶11]

Stabilization Arrangements

.187 Governments that establish stabilization arrangements, as discussed in paragraph .180, even if an arrangement does not meet the criteria to be classified as restricted or committed, should disclose the following information in the notes to the financial statements:

- 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. [GASBS 54, ¶26]

Minimum Fund Balance Policies

.188 If a governing body has formally adopted a minimum fund balance policy (for example, in lieu of separately setting aside stabilization amounts), the government should describe in the notes to its financial statements the policy established by the government that sets forth the minimum amount. [GASBS 54, ¶27]

Terminology and Classification Consistency

.189 The budget, the accounts, and the financial reports are inseparable elements in the financial administration process. Terminology and classification consistency among them is essential to achieving viable accounting systems and comparable, unambiguous financial reporting. [NCGAS 1, ¶124]

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Governmental Funds

- .190 The budget determines the nature and scope of most governmental fund financial operations by setting the amounts and sources of estimated budgetary inflows of resources~~revenues and transfers in~~, on the one hand, and the amounts and purposes of authorized budgetary outflows of resources~~expenditures and transfers out~~, on the other. The accounts of several types of governmental funds record, in summary and detail, both the budgetary inflows of resources, budgetary outflows of resources~~planned revenues, expenditures, and transfers and~~ the actual transactions. In the absence of significant conflicts between legal provisions and generally accepted accounting principles (GAAP), the financial statements summarize the results of financial operations and financial position as reflected in the accounts. Where legal provisions conflict with GAAP, legal-basis data typically are reflected in the accounts and are used as the starting point for deriving statements prepared in conformity with GAAP. [NCGAS 1, ¶125, as amended by GASBS XX, ¶127]
- .191 Effective management control and accountability for governmental funds can best be achieved by using a common language and uniform classification system in financial planning, management, and reporting. The terminology and classifications discussed above provide such a common language. To the maximum extent practicable, the suggested terminology and classifications should be used consistently in all phases of budgeting, accounting, and reporting. [NCGAS 1, ¶126]

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GASB IMPLEMENTATION GUIDES

.701 Introduction

No questions assigned.

.702 Reporting Interfund Activity in Fund Financial Statements

.702-1 Q—A state's Division of Human Resources (DHR) allocates the entire cost of its operations to other state agencies based upon agency "full-time equivalent" personnel count. DHR receives all of its "funding" through this allocation mechanism. Should this internal activity be treated as reimbursements, or do the charges represent program revenue of DHR? Are the charges to the various state agencies direct or indirect expenses?

A—Because of the standard allocation formula used by DHR, it is unlikely that the expenses are "directly attributable" to the various agencies. Thus, they should be treated as indirect expenses and the allocations should either be reversed completely for the statement of activities or be reversed and displayed in the separate column. The charges appear to be designed to "spread" costs and therefore constitute reimbursements rather than program revenues.

[GASBIG 2015-1, Q7.47.3]

.702-2 Q—A central agency buys goods and "charges" other state agencies, through the general fund, for their respective shares (at a minimal markup to handle administrative expenses). Would this be considered a *reimbursement* situation?

A—The "reselling" of goods by a central agency to other state agencies represents a typical reimbursement situation. The definition in paragraph .102b(2) 102 of this section states that reimbursements are "repayments from the funds responsible for particular outflows of short-term financial resources~~expenditures~~ or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements." Paragraph .132131 of Section 2200 states that governments are not required to remove the "markup."

[GASBIG 2015-1, Q7.47.4, as amended by GASBS XX, ¶123]

.702-3 Q—A "lead" state agency obtains a federal grant and passes a portion through to another state agency. For the state's financial statements, would the lead agency consider the federal payment reimbursement (of the subrecipient agency's costs~~expenditures~~) that it passes through a reimbursement, ~~or revenue and expense~~ per paragraph .127 of Section N50, "Nonexchange Transactions"?

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A—Because the portion provided to the other state agency is an internal transaction, there is no “pass-through” to invoke the requirements of paragraph .127 of Section N50; therefore, the state function that includes the lead agency would not include inflows of short-term financial resources/revenue or outflows of short-term financial resources/expenses from the grant. The federal reimbursement should be reported as program revenue of the function that includes the agency (the subrecipient) that reports the reimbursed expenses in the statement of activities. For parallel accounting in the governmental funds, the “passing through” from one agency to another should be accounted for consistent with a reimbursement. That is, the lead agency would reduce its inflows of short-term financial resources/revenue by the amount transferred to the subrecipient agency, rather than report the amount as inflows of short-term financial resources/revenue and a transfer.

[GASBIG 2015-1, Q7.47.5, as amended by GASBS XX, ¶122, and ¶123]

.702-4 Q—Does the requirement to eliminate interfund reimbursements in paragraph .102b(2) 102 of this section apply to internal service funds?

A—No. Cost reimbursement, as explained in paragraph .110 of Section 1300, is an essential characteristic of internal service funds. The reimbursements from other funds constitute the revenues of an internal service fund. For government-wide reporting purposes, however, the requirement in paragraph .104 of this section to eliminate the “doubling-up” effect of internal service fund activity causes those internal service fund revenues to be treated as if they were reimbursements.

[GASBIG 2015-1, Q7.47.10]

.702-5 Q—A governmental fund incurs a liability to the general fund with no specific repayment arrangement. Should the interfund payable be reported as a fund liability of that governmental fund presented applying the short-term financial resources measurement focus and under the modified accrual basis of accounting?

A—The government should either report the amount as a fund liability in accordance with paragraph .122 of Section 1300, or reclassify it as a transfer, as discussed in paragraph .102a(1) of this section. Paragraph .122 of Section 1300 states that liabilities arising from interfund activities do not constitute general long-term liabilities and therefore should be reported in governmental funds. Paragraph .102a(1) of this section provides that, if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer. (See Question .702-8 in this section about the meaning of *reasonable* time.)

[GASBIG 2015-1, Q7.59.2, as amended by GASBS XX, ¶12]

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.702-6 Q—Are governments required to report interfund loan balances in two categories—“due to/from other funds” for the short-term amounts and “advances to/from other funds” for the amounts that will be repaid over several years?

A—No. Although governments may classify interfund balances as such, they are not required to do so. Paragraph .102 of this section only requires “interfund receivables” and “interfund payables” to be reported. Governments are required, however, to report nonspendable fund balance for the noncurrent portion of interfund receivables to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. (See Question .702-8 in this section about reclassifying interfund loan balances.)

[GASBIG 2015-1, Q7.62.2]

.702-7 Q—A city government receives in its general fund an annual payment in lieu of taxes (PILOT) from the water and sewer utility enterprise fund. The PILOT is determined each year by multiplying the estimated assessed valuation of the water and sewer plant by the city’s property tax rate. Should that transaction be reported as “interfund services provided and used”?

A—No. The concept of “interfund services provided and used” implies an exchange or exchange-like transaction. Paragraph .102b of this section requires internal PILOTs to be reported as transfers, rather than interfund services provided and used, *unless the payments are reasonably equivalent in value to services provided.*

The fact that the interfund charge is based on the normal tax rate is not relevant based on this section. If the PILOT is calculated like a tax, rather than a bill for goods and services, it would not meet the criterion for revenue or expense treatment in paragraph .102a(2) of this section. Therefore, even though it still appears to be equivalent to charges to external organizations, it should be reported as a transfer because it is not exchange or exchange-like. Paragraph 52 in the Basis for Conclusions of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, discusses the nonexchange characteristic of taxes as follows: “Although some may believe that property owners ‘exchange’ property taxes for certain services, such as public safety and sanitation, there is no direct relationship between the values provided by homeowners (taxes paid) and the services provided; the tax generally is not based on the cost or value of the services.”

[GASBIG 2015-1, Q7.72.7]

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.702-8 Q—Paragraph .102a(1) of this section discusses interfund loans (including balances previously termed “advances”) and states that if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan. What does “expected within a reasonable time” mean?

A—There is no precise definition of the provision. Professional judgment should be exercised in determining whether an interfund loan should be reclassified. The *expectation* aspect of the phrase means that the government intends to, and has the ability to, repay the amount loaned. For example, recurring payments made to reduce the interfund loan balance may provide evidence that “repayment is expected.” What constitutes a *reasonable time* for repayment is again a matter of professional judgment, but the notion is not without precedent in financial reporting standards. Section C50, “Claims and Judgments,” invokes a “reasonable time” consideration in paragraphs .128b and .130 with regard to recovery of the full cost of internal service fund expenses.

[GASBIG 2015-1, Q7.82.1]

.702-9 Q—How are “quasi-external transactions” reported?

A—This section does not use the term *quasi-external transaction*, but rather refers to this form of internal activity as “reciprocal interfund activity.” Paragraph .102 of this section explains that there are two types of reciprocal interfund activity—interfund loans and interfund services provided and used. Items that meet the definition of “interfund services provided and used” should be reported as if they were external transactions, as inflows of short-term financial resources/revenues and outflows of short-term financial resources/revenues and expenditures/expenses.

[GASBIG 2015-1, Q7.82.2, as amended by GASBS XX, ¶122 and ¶123]

.702-10 Q—How should a government report a “payment in lieu of taxes” from its enterprise utility fund to its general fund?

A—The payment would be reported either as an interfund transfer or as interfund services provided and used—that is, as an expense in the enterprise fund and an inflow of short-term financial resources~~a revenue~~ in the general fund. As discussed in paragraph .102 of this section, the distinction is based on whether the payment in lieu of taxes is a payment for, and reasonably equivalent in value to, the services provided by the general fund. (See also Question .702-7 in this section.)

[GASBIG 2015-1, Q7.82.3, as amended by GASBS XX, ¶122]

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**.703 Reporting Internal Activities and Balances in Government-Wide
Financial Statements**

.703-1 Q—Paragraph .103 of this section states that internal balances should be eliminated from the total primary government column. However, because some governments have blended component units with different fiscal years, the internal accounts may be “out of balance” at the reporting date due to the timing difference. In those situations, is it acceptable to report an internal balance in the total primary government column?

A—Yes. In those instances, the total primary government column would report an internal balance. Paragraph .120 of Section 2600, “Reporting Entity and Component Unit Presentation and Disclosure,” requires the reason for the imbalance to be disclosed in the notes.

[GASBIG 2015-1, Q7.22.10]

.703-2 Q—How should internal activity be reported in the government-wide statement of activities?

A—An objective in the statement of activities is to avoid “grossing up” expenses and revenues because of internal activity. With regard to expenses, the issue is whether the amount charged or allocated to a program is a direct expense or an indirect expense. For example, if it is a *direct* expense of Program A that was paid for by Program B, the amount should be included in the direct expenses of Program A. On the other hand, if it is an *indirect* expense—allocating the utility bill for the administration building, for instance—the allocation should either be reversed completely or be reversed and then reported in a separate indirect expense column in the statement of activities.

With regard to the provider of the goods or services, the question is whether the amount received is a program revenue or a reimbursement that reduces the expenses of the “charging” program. In other words, is one program the “customer” of another program, or is the reason for the transaction simply to “spread” a common expense over several programs or functions? It also might be helpful to consider whether the sale of the goods or services is a normal operating activity of the function that makes the charge. (See also Question .715-~~56~~ in Section 2200.)

[GASBIG 2015-1, Q7.47.1]

.703-3 Q—A state Department of Administration pays the state’s phone bill to the telephone company. The department is subsequently reimbursed through interagency billings (to the various state agencies). Are the payments to the

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department from the agencies program revenues or reimbursements?
Are the charges direct expenses of the agencies?

A—The Department of Administration's telephone expense would be reduced by the internal charges (a reimbursement). The department is not a telephone company and the agencies are not its telephone customers; thus, reporting the amount as program revenue would be inappropriate. To the extent that charges can reasonably be identified to specific functions (by actual usage information, for example), they should be included in the direct expense of the functions.

[GASBIG 2015-1, Q7.47.2]

.703-4 Q—How is the “effect” of internal service fund activity eliminated, as required by paragraph .104 of this section?

A—As explained in paragraph 314 of the Basis for Conclusions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, eliminating the “effect” of internal service fund activity requires preparers to “look back” and adjust the internal service fund's internal charges to break even. Internal service fund net income from internal activity would cause a pro rata *reduction* in the charges made to the participating funds or functions. Conversely, an internal service fund net loss from internal activity would require a pro rata *increase* in the amounts charged to the participating funds or functions. Exercise 1 in nonauthoritative paragraph .907 of Section 2200 provides an example of eliminating the effect of internal service funds.

[GASBIG 2015-1, Q7.47.6]

.703-5 Q—The assets and liabilities of a city's internal service fund are reported with governmental activities in the government-wide statement of net position. However, the “look-back” adjustment for the internal service fund includes a significant “undercharge” involving the water utility enterprise fund. As a result, the *internal balances* reported in the statement of net position are adjusted, as illustrated in Exercise 1 in nonauthoritative paragraph .907 of Section 2200. How does this year's internal balance adjustment affect the statement of net position next year?

A—That portion of a look-back adjustment that crosses activity classes is referred to as the “crossover” amount because some of the change statement expenses are allocated to one activity class (business-type), but *all* of the net position is reported in the other activity class (governmental). The *accumulated* cross-over adjustments should be carried forward from the prior year's statement of net position. The accumulated internal balance arising

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from prior years' crossover look-back adjustments is recognized in the reconciliations of government-wide net position to fund balances/net position in the funds. The adjustment is similar to the reconciling items needed to report governmental capital assets and liabilities—that is, to report balances that are included in the government-wide statements, but not in the funds. The reconciliations for both governmental and enterprise funds will need to include this item, because *interfund* balances (in the fund financial statements) are not adjusted for the look-back amounts. (See also Question .703-19 in this section.)

[GASBIG 2015-1, Q7.47.7]

.703-6 Q—In eliminating the effects of internal service fund activity, what happens to transactions with outside parties?

A—The internal service fund activity pertaining to outside parties is not eliminated, but instead would be included with the appropriate function in the statement of activities. Exercise 1 in nonauthoritative paragraph .907 of Section 2200 includes an internal service fund that conducts business with outside parties.

[GASBIG 2015-1, Q7.47.8]

.703-7 Q—In addition to transactions with outside parties, are there any other revenues or expenses of an internal service fund that are excluded from the “look-back” adjustment? (See Questions .703-4–.703-6 in this section.)

A—Yes. In some instances an internal service fund operation includes revenues and expenses that are not “internal” or includes elements that are reported separately in the statement of activities. For example, investment income is generally reported separately in the general revenues section of the statement of activities; therefore, if an internal service fund has significant investment income, that amount should be included with investment income, rather than allocated among the various participating functions or programs. Similarly, interest expense is generally reported as a separate expense category in the statement of activities. Therefore, if an internal service fund has significant interest expense, that amount should be allocated to the interest expense line item, rather than the various functions or programs. In addition, grants and contributions from external parties, if included in the calculation for the look-back adjustment, would have the effect of understating the direct expenses of the participating functions or programs. Consequently, those grants and contributions should be reported in the statement of activities as program or general revenues, as appropriate.

[GASBIG 2015-1, Q7.47.9]

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.703-8 Q—A government accounts for its central supplies activity in the general fund and charges other funds for the cost of supplies used. The payments from the other funds are recorded as revenue in a general fund account called “interfund charges.” Should that “revenue” be eliminated for the statement of activities, or does it constitute program revenue of the general government function?

A—Paragraph .102a(2) of this section defines interfund services provided and used as sales and purchases of goods and services between funds for a price approximating their external exchange value. It also states that interfund services provided and used should be reported as inflows of short-term financial resources or revenues in seller funds and outflows of short-term financial resources ~~expenditures~~ or expenses in purchaser funds. The paragraph defines interfund reimbursements as repayments from the funds responsible for particular outflows of short-term financial resources ~~expenditures~~ or expenses to the funds that initially paid for them. It further stipulates that reimbursements should not be displayed in the financial statements.

Paragraph .104 of this section requires reimbursement-type activity to be eliminated for the statement of activities, so that the allocated (reimbursed) expenses are reported only by the function to which they were allocated. Conversely, paragraph .105 of this section *prohibits* the elimination of interfund services provided and used. The interfund activity described in this question meets the definition of a *reimbursement*. (See Question .703-9 in this section.) Therefore, the government should not display the “revenue,” but should instead reduce the appropriate expenses (in the function from which they were initially paid) for the reimbursed amounts. This process in effect “eliminates” the interfund activity for the statement of activities.

[GASBIG 2015-1, Q7.47.11, as amended by GASBS XX, ¶122 and ¶123]

.703-9 Q—What distinguishes the interfund charges for supplies by the general fund in Question .703-8 in this section from the interfund charges for water or electric use by a utility fund in paragraph .105 of this section?

A—The purchase and resale of office supplies is not a program of the general fund. Rather, as an economy and efficiency measure, the government uses the general fund to buy office supplies and spreads the cost to programs based on use or requisitions. On the other hand, the treatment and distribution of water and the generation and sale of electricity are programs of the utility funds. The government’s programs are purchasers of the utility fund’s services (like its other customers); therefore, the internal activity is characterized as interfund services provided and used rather than reimbursements.

[GASBIG 2015-1, Q7.47.12]

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.703-10 Q—A city charges its departments and programs for building permits in connection with construction of and improvements to its own buildings. Should these internal revenues and expenses be eliminated for the statement of activities?

A—No. Paragraph .105 of this section states that the effect of interfund services provided and used *between functions* should *not* be eliminated because to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. If the purchase and sale of the permits are within the *same* function, the expenses and revenues should be eliminated to remove the grossing up of both direct expenses and program revenues within that category. However, as discussed in paragraph 315 of the Basis for Conclusions of Statement 34, as a practical matter, eliminations of this kind are not necessary unless the effect on direct expenses or program revenues is material. (See Question .716-3 in Section 2200 about program revenues.)

[GASBIG 2015-1, Q7.47.13]

.703-11 Q—Is a government required to eliminate an “indirect” element of interfund charges by reversing the portion of the charges that is attributable to overhead markup?

A—No. As stated in paragraph ~~.132-131~~ of Section 2200, the government is not required to reduce the interfund charges to eliminate the indirect portion of the amount charged. For example, if a government accounts for its central supplies activity in the general fund and charges other funds for supplies used plus an additional amount to cover “overhead” costs—such as a percentage of certain office employees’ salaries and related office expenses—it would not be required to eliminate the overhead markup. However, the summary of significant accounting policies should disclose that “direct expenses” includes that element.

[GASBIG 2015-1, Q7.47.14]

.703-12 Q—What is the difference between “overhead expenses” discussed in paragraph .104 of this section (which should be eliminated), and “administrative overhead charges” referred to in paragraph ~~.132-131~~ of Section 2200 (which need not be eliminated)?

A—There really is no difference in the two terms, but there is a difference in the objectives of the two paragraphs. The intent in paragraph .104 of this section is to eliminate the “doubling up” of internal allocations (that is, reducing the expenses of the allocating function by the amount allocated [the internal “revenue”] to others) so that only one function reports the expense.

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The concept is similar to accounting for interfund reimbursements. The provision in paragraph ~~.132-131~~ of Section 2200 is a practical consideration that relieves governments of the burden of removing and reclassifying any “indirect” elements of internal charges from the *direct* expenses of a function. (See the examples in Questions .703-8 and .703-11 in this section.)

[GASBIG 2015-1, Q7.47.15]

.703-13 Q—To what extent should interfund transfers be eliminated for the statement of activities?

A—Interfund transfers, as defined in paragraph .102b(1) of this section, *within* governmental activities and *within* business-type activities should be eliminated for the statement of activities. Only the net amount transferred *between* governmental and business-type activities should be reported. The internal “eliminations” can be achieved and the “net” amount easily determined by combining transfers in and transfers out within each category as a single “transfers” amount for the statement of activities.

[GASBIG 2015-1, Q7.47.16]

.703-14 Q—A state maintains an internal service fund to account for its telecommunications system, including debt service on bonds issued to purchase the equipment. The state reports the telecommunications equipment as an asset and the related bonds as a liability of the internal service fund and charges the various state departments for equipment usage. How will the expenses of the internal service fund be allocated among the governmental and business-type activities in the statement of activities?

A—There are three main components of this internal service fund’s expenses—interest on the debt, depreciation of the assets, and other operating expenses. In essence, the charges made to the participating departments already “allocate” the internal service fund’s expenses to the governmental and business-type activities. For reporting in the statement of activities, however, two adjustments are necessary: (1) to identify interest expense for separate reporting and (2) to eliminate the “doubling-up” effect of internal charges.

As explained in paragraph 314 in the Basis for Conclusions of Statement 34, eliminating the “effect” of internal service fund activity requires preparers to “look back” and adjust the internal service fund’s internal charges to break even. However, because interest expense should be reported separately, it first should be added back to the net revenue or expense of the internal service fund. (See Question .703-9 in this section.)

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The remaining *net* revenue or expense can then be allocated among the participating functions in the same ratio as the original use charges. This process is illustrated in Exercise 1 in nonauthoritative paragraph .907 of Section 2200. It is not necessary to make additional adjustments for depreciation expense of the internal service fund assets, but the amount of depreciation expense included in the internal service fund charges should be included in the disclosure required by paragraph .118d of Section 2300.

[GASBIG 2015-1, Q7.47.17]

- .703-15 Q—A government has several internal service funds that provide goods and services to fiduciary funds. Are these fiduciary funds considered “outsiders” and not included in the elimination of internal activities as required by paragraph .104 of this section?

A—Transactions with fiduciary funds are considered to be “internal” for purposes of determining if an activity qualifies for reporting as an internal service fund. However, because fiduciary funds are not included in the statement of activities, they are treated as “external” when eliminating the effect of internal transactions.

[GASBIG 2015-1, Q7.47.20]

- .703-16 Q—A city maintains an internal service fund to account for its risk financing activities. The charges to participating funds include a reasonable provision for future catastrophe losses, in accordance with paragraph .128c of Section C50. Paragraph .104 of this section requires the city to eliminate the effect of internal service fund activity. How does the requirement in paragraph .104 of this section affect the reporting of the internal charges and the accumulated resources?

A—As explained in paragraph 314 of the Basis for Conclusions of Statement 34, eliminating the effect of internal service fund activity requires preparers to “look back” and adjust the internal service fund’s internal charges to break even. Thus, the excess amounts charged to the funds to provide for future catastrophe losses would be eliminated in the look-back adjustment, so that the expenses reported by the functions or programs in the statement of activities are in accordance with the expense recognition requirements of paragraphs .110–.114 of Section C50. The additional charge to the funds to provide for future catastrophe losses does not constitute an *expense* in the statement of activities, but rather is a transfer device for accumulating resources for a specified purpose. The accumulated resources in the internal service fund

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should be disclosed in the notes as intended for future catastrophes, in accordance with paragraph .129 of Section C50.

[GASBIG 2015-1, Q7.47.21]

.703-17 Q—An internal service fund sells some of its capital assets to another government. How should the loss or gain on the sale be reported on the statement of activities?

A—The amount would be reported in the same fashion as other sales to outsiders—that is, as a direct expense or as a general revenue—or if “unusual or infrequent,” as an unusual or infrequent~~“special,” as a special~~ item.

[GASBIG 2015-1, Q7.47.22, as amended by GASBS XX, ¶9 and ¶10]

.703-18 Q—How should transactions between a university and its auxiliary enterprises be reported? Should they be eliminated for the statement of revenues, expenses, and changes in fund net position?

A—If the university reports its activities as both governmental and business-type, internal activity should be reported in accordance with the provisions of paragraph .102 of this section and eliminations made as required by paragraphs .104 and .105 of this section. However, if the university is reported as a single-column business-type activity, internal transactions between the university and its auxiliary enterprises should be eliminated in the consolidation process.

[GASBIG 2015-1, Q7.47.23]

.703-19 Q—A city government is preparing its government-wide statements and is in the process of allocating the look-back adjustment for its internal service funds. A portion of the adjustment pertains to the enterprise fund operations. The answer to Question .703-5 in this section states that the “crossover” amount should be reported as an internal balance in the governmentwide statement of net position. Could the city instead report the crossover amount as a *transfer* in the statement of activities because the adjustment will not be made in the fund financial statements and will not be “repaid?”

A—No. To conclude that the amount representing an over- or under-charge by an internal service fund is a permanent transfer is contradictory to the principle that internal service funds should be operated on a break-even basis, with excesses or deficiencies eliminated within a reasonable time through adjustments to future internal charges. As the internal charges are adjusted over time, and as over- and under-charges fluctuate from year

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to year, the internal balance reported in the statement of net position will rise and fall but should not grow to a significant amount.

[GASBIG 2015-1, Q7.47.24]

.703-20 Q—If a government chooses to present a total column for the financial reporting entity, what eliminations should be made?

A—Paragraphs .103–.105 of this section provide guidance for eliminations for presentation of the required total column for the primary government. If the government chooses to present a total column for the financial reporting entity, the same considerations as set forth in paragraphs .103–.105 of this section would apply.

[GASBIG 2016-1, Q4.10]

.704 Reporting Intra-Entity Activity and Balances in Government-Wide Financial Statements

No questions assigned.

.705 Reporting Internal Service Fund Balances in Government-Wide Financial Statements

.705-1 Q—How will the assets and liabilities of the internal service fund in Question .703-14 in this section be reported in the statement of net position?

A—The capital assets and the long-term liabilities of the internal service fund constitute general capital assets and general long-term liabilities, respectively, and therefore should be reported in the governmental activities column. The “look-back” adjustment that results from eliminating the effects of the internal service fund’s charges to business-type activities would increase or decrease the internal balances reported in the statement of net position. An example of this process is illustrated in Exercise 1 in nonauthoritative paragraph .907 of Section 2200. Exercise 1 also includes an internal service fund that serves *only* enterprise funds. (See also Question .703-5 in this section about carrying forward accumulated “look-back” adjustments.)

[GASBIG 2015-1, Q7.47.18]

.705-2 Q—A state investment board is responsible for managing the investments of several state funds, including pension funds, internal service funds, enterprise funds, and governmental funds. The board is funded solely by service fees charged to these other funds and is reported as an internal service fund.

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A high percentage of the state investment board's activity pertains to the pension funds. Because fiduciary funds are not presented in the government-wide statements, should this internal service fund be included with governmental or business-type activities?

A—The balances of the internal service fund should be included with *governmental* activities in the government-wide statement of net position. The balances would be included with business-type activities only if *enterprise funds* are the predominant or only participants. The investments and related income, gains, and losses of the internal investment pool itself should be allocated to the participating funds and reported in accordance with paragraph .132 of Section 150, "Investments."

[GASBIG 2015-1, Q7.47.19]

.706 Statement of Net Position Classification in Government-Wide and Proprietary Fund Financial Statements

No questions assigned.

.707 Current Assets

.707-1 Q—If a government elects to use the classified format in its government-wide statement of net position, is it required to separately display restricted assets of governmental activities?

A—This section does not require *separate presentation* of restricted assets in the government-wide statement of net position for either governmental activities or business-type activities; however, the decision to use the classified format may result in the presentation of a portion of restricted assets as "noncurrent." The classified format distinguishes between current and noncurrent assets and liabilities as defined in paragraphs .108–.123 of this section. One of the requirements of that approach is that current assets should *exclude* assets that will not be used in current operations, are restricted for acquisition or construction of noncurrent assets, or are restricted for liquidation of long-term debt.

Resources accounted for in the general fund, special ~~resources~~ revenue funds, and debt service funds are generally expected to be used in current operations or to liquidate current obligations and thus generally would be considered current assets. Conversely, a portion of the resources accounted for in capital projects funds and permanent funds may meet the criteria for assets that

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should not be reported as current assets. (Question .708-3 in Section 2200 discusses reporting restricted assets when the “order of liquidity” format is used.)

[GASBIG 2015-1, Q7.22.2, as amended by GASBS XX, ¶28]

.707-2 Q—A government has unspent proceeds from a bond issue that are restricted for use in the acquisition and construction of capital assets. At the end of the fiscal year, the government reports a current liability for construction costs incurred but not yet paid as of the end of the fiscal year. Is the government required to classify the portion of the restricted assets that will be used to liquidate this current liability as a current asset?

A—No. Paragraph .110 of this section requires that resources designated for disbursement in the acquisition or construction of noncurrent assets be excluded from current assets; however, footnote 2 of this section provides that if such resources are considered to offset maturing debt that is properly reported as a current liability, those assets may be included within the current asset classification. At the end of the fiscal year, the government in this example already has acquired the noncurrent asset and recognized a current liability for the unpaid construction costs. Accordingly, the portion of the restricted assets may be, but is not required to be, classified as current.

[GASBIG 2016-1, Q4.60]

.708 Classification and Disclosure of Allowances

No questions assigned.

.709 Current Liabilities

No questions assigned.

.710 Classification of Short-Term Obligations Expected to Be Refinanced

No questions assigned.

.711 Classification

No questions assigned.

.712 Ability to Consummate the Refinancing

No questions assigned.

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.713 Terminology and Classification Consistency in Governmental Fund Financial Statements

No questions assigned.

.714 General Long-Term Debt Issue Proceeds

No questions assigned.

.715 Other General Long-Term Debt Transactions

No questions assigned.

.716 Demand Bonds

No questions assigned.

.717 Capital Lease Transactions

No questions assigned.

.718 Subscription-Based Information Technology Arrangement Transactions

No questions assigned.

.718.719 Capital Asset Sales

No questions assigned.

.719.720 Revenue and Expenditure Classification of Inflows of Resources and Outflows of Resources

No questions assigned.

.720 Revenue Classification

No questions assigned.

.721 Expenditure Classification of Inflows of Resources

No questions assigned.

.722 Classification of Outflows of Resources

No questions assigned.

.722.723 Proprietary Fund Revenue and Expense Classification

No questions assigned.

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.724723 Classification of Expenses and Revenues in the Government-Wide Statement of Activities

.724723-1 Q—What is the minimum level of detail that is required to be reported as functions or programs in the statement of activities? Does this level need to be as detailed as the fund financial statements?

A—The statement of activities has a “program” focus, and governments are encouraged to report their activities at the program level, whenever practical. Paragraph .133 of this section establishes the *minimum* levels of reporting. Activities accounted for in governmental funds should be presented at least at the level of detail required in the governmental fund statement of short-term financial resource flows, ~~revenues, expenditures, and changes in fund balances~~—at a minimum by *function*, as discussed in paragraph .133. The statement of activities requirement is tied to the governmental fund reporting *minimum requirements*, rather than what is actually displayed in the fund financial statements; thus, governments can provide additional details for governmental fund financial statements without also having to do so for the statement of activities. Activities accounted for in enterprise funds should be presented at least by *different identifiable activities* in the statement of activities. (See Questions ~~.724-3723-4~~ and ~~.724-4723-5~~ in this section and Question .701-3 in Section 2500.)

[GASBIG 2015-1, Q7.26.1, as amended by GASBS XX, ¶11]

.724723-2 Q—What are the criteria for determining which activities accounted for in enterprise funds are sufficiently *different* to require separate reporting in the statement of activities?

A—This section does not provide specific criteria that should be applied in determining whether one enterprise fund activity is different from another— some professional judgment may be necessary. Generally, the difference between activities is in the goods, services, or programs provided. Usually, the distinction is clear and the decision is straightforward—for example, unemployment compensation is different from a housing loan program, and each should be reported separately. Sometimes, however, *difference* is more subtle and judgment may need to be applied. For example, is an intercollegiate athletic program different from higher education, or is it an integral component of it? Professional judgment should be guided by the needs of the users of the financial statements. Preparers should present the level of detail that provides the most meaningful information to meet user needs.

[GASBIG 2015-1, Q7.26.3]

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~~.724723~~-3 Q—A city's water department manages four separate water districts. The city uses separate enterprise funds to account for the activities of each of the four districts. Is the city required to report each district as a separate function or program in the statement of activities?

A—No. The city may report them separately, but is not required to do so. Paragraph .139 of this section establishes the minimum level of detail for activities accounted for in enterprise funds as *different identifiable activities*. In this case, even though there is a separate and identifiable *accounting* for each district, the *activity* in the districts is the same—production, treatment, and distribution of water. The city can combine the four districts as, for example, "Water Utilities."

[GASBIG 2015-1, Q7.26.4]

~~.724723~~-4 Q—A city uses a single enterprise fund to account for its water and electric utilities. Separate accounts are used for capital assets, liabilities, revenues, and expenses of the two utility operations. Can the city report a single "utilities" function in the statement of activities?

A—No. Provision of water and generation and distribution of electricity are *different* activities. The separate accounting satisfies the *identifiable* criterion. The city should report, for example, "Water Utility" and "Electric Utility" as separate functions or programs in the statement of activities.

[GASBIG 2015-1, Q7.26.5]

~~.724723~~-5 Q—Component units that are engaged only in business-type activities are not required to present a statement of activities in their separately issued financial statements. Consequently, those component units that follow the guidance in paragraph .113 of Section Sp20 do not distinguish between program and general revenues, even though that information will be displayed in the reporting entity's statement of activities. How should the operations of those component units be included in the reporting entity's statement of activities?

A—Component units that are not program-oriented, and would likely not report their operations in a net program cost format, can be presented in the reporting entity's statement of activities as if the component unit itself were a single function/program. As a result, all revenues, except those that should be reported as general revenues (taxes, for example), derive from the program and may be reported as program revenues. The specific program revenue classifications can generally be inferred from the manner in which the revenues are reported in the component unit's operating statement—for example, capital contributions would be reported in the capital grants and contributions column, operating and nonoperating grants

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would be included in the operating grants and contributions column, and so forth.

[GASBIG 2015-1, Q7.26.6]

.725724 Expenses

.725724-1 Q—If outflows of short-term financial resources for city-wide vehicle maintenance ~~expenditures~~ are accounted for in the general fund, do the expenses associated with specific functions or programs (police, public works, garbage collection, for example) need to be reported as direct expenses of the various functions in the statement of activities?

A—Yes. If the maintenance expenses can be specifically identified with separately reported functions or programs, paragraph .141 of this section requires those expenses to be included in the direct expenses of the functions or programs. Vehicle maintenance is an internal operation or cost center, rather than a separate function or program. The expenses that are not specifically identified with separately reported functions or programs (including depreciation of the maintenance facilities) would be reported with “general government” or a similar indirect cost center. If the city chooses to allocate those indirect expenses to its programs, it should do so by using the separate indirect expense column in the statement of activities.

[GASBIG 2015-1, Q7.28.1, as amended by GASBS XX, ¶123]

.725724-2 Q—A city currently charges all nonenterprise fund employee benefit costs to a “general administration” account in the general fund. Can those employee benefit expenses for employees whose salaries and wages are charged to functions such as Public Safety, Public Works, and Sanitation be reported as “general government” in the statement of activities, or should they be reclassified as direct expenses of the various functions or programs?

A—Employee benefit costs are specifically associated with the separately reported functions mentioned and should be included in the direct expenses of the various functions or programs. These expenses are as “direct” as the salaries that they are based on. As a practical approach, the city could use a standard rate to add the employee benefits to the various operating functions and reclassify them from the general government function.

[GASBIG 2015-1, Q7.28.2]

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.726725 Program Revenues

.726725-1 Q—Is there a direct relationship between program revenues and the restricted component of net position?

A—No. Not all program revenues are restricted. Grants and contributions that are reported as program revenues are restricted by definition, whereas charges for services may be unrestricted or may be restricted to the program that generates the revenue or to a completely unrelated program. In addition, some general revenues are restricted—taxes levied for pension contributions or debt service payments, for example—and may be reported separately as restricted within the general revenue section of the statement of activities.

[GASBIG 2015-1, Q7.32.4]

.726725-2 Q—Are operating special assessments considered general revenues like property taxes? Both revenues derive from property owners.

A—No. Although both special assessments and property tax revenues are derived from property owners, as indicated in paragraph .138~~137~~ of Section 2200, operating special assessments are program revenues. Operating special assessments differ from property taxes in the sense that only the property owners who benefit from the special assessment project are assessed. For example, the property owners in a remote area of town want additional snow-plowing services and agree to a special assessment to pay the town for those additional services. Only the property owners whose streets are plowed (rather than the entire real estate tax base) are assessed; thus, the assessments are equivalent to *charges for services* and qualify as program revenues.

[GASBIG 2015-1, Q7.36.1]

.726725-3 Q—Are *capital* special assessments also program revenues?

A—Yes. Capital special assessments qualify as program revenues in the “program-specific capital grants and contributions” category. As described in paragraph .105 of Section S40, capital special assessments enhance the utility, accessibility, or aesthetic value of the affected properties. The benefited property owners pay the government for those improvements through special assessments, either in a lump sum or in installments over time. Paragraphs .119, .122, and .123 ~~.122~~ of Section S40 characterize the property owner assessments as *capital contributions*.

[GASBIG 2015-1, Q7.36.2]

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~~.726~~~~725~~-4 Q—A state government accounts for certain assets in a permanent fund. The fund is managed and controlled by officials in the *transportation* function, but a portion of the earnings on the permanent fund investments is restricted for *public safety* purposes. How should the state report the public safety portion of the earnings—as program revenue of the transportation function because they are generated from within that function, or as program revenue of the public safety function because they are restricted to it?

A—The investment earnings should be reported as program revenue of the public safety function. Legally restricted investment earnings are similar in nature to program-specific grants and contributions. Paragraph .142 of this section emphasizes that grants and contributions are program revenues of the function to which they are restricted.

[GASBIG 2015-1, Q7.37.2]

~~.726~~~~725~~-5 Q—State law requires that 20 percent of the state's lottery sales revenue be used for elementary and secondary education programs in the state. Should the 20 percent be allocated to the *education* function as program revenue?

A—No. Ticket sales are program revenues of the *lottery* function. As defined in paragraph .142 of this section, the revenue derives directly from the program itself. However, presentation of charges for services as program revenue does not necessarily imply that those resources are restricted to that program. The lottery's net program revenue (a portion of which is restricted to elementary and secondary education programs) reduces the state's need to use general revenues to support the education function.

[GASBIG 2015-1, Q7.39.3]

~~.726~~~~725~~-6 Q—State gas taxes are shared with eligible local governments. The local governments have discretion over when and how the money is spent, as long as it is for road and highway projects. Even though a high percentage of the revenue will likely be spent for capital purposes, maintenance and repair expenses are also allowable. How should the revenue (grants and contributions) be reported by the local governments—capital, operating, or some combination?

A—The local governments should report the gas tax revenues as *operating* grants and contributions. Paragraph ~~.139~~~~138~~ of Section 2200 requires that classification because the revenues may be used *either* for operating expenses *or* for capital ~~outlay~~~~expenditures~~ of the program at the discretion of the reporting government.

[GASBIG 2015-1, Q7.39.4, as amended by GASBS XX, ¶27]

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.726725-7 Q—A government charges indirect expenses to its human services program through an indirect cost plan and is reimbursed by the federal and state grantor agencies for the costs of the program. However, in the statement of activities, the government does not allocate the indirect expenses to the human services program, but rather reports them in the general government function. Should the portion of the grant that reimburses the *indirect* expense be reported as program revenues of the human services or general government function?

A—The reimbursement should be reported as program revenue of the function or program that includes the reimbursed expenses. If indirect expenses are not allocated to the human services program in the statement of activities, the indirect expense portion of the grant should be reported as program revenue of the general government function. If the indirect expenses are allocated, the entire reimbursement should be reported as program revenue of the human services program.

[GASBIG 2015-1, Q7.39.5]

.726725-8 Q—Where should investment earnings that qualify as program revenues be reported?

A—Legally restricted earnings as discussed in paragraph ~~.140139~~ of Section 2200 generally are similar in nature to program-specific grants and contributions and would be reported in either the capital or operating column, as appropriate. (See Question .717-2 in Section 2200 about using more than one column for program revenue categories; see also Question .717-10 in Section 2200.)

[GASBIG 2015-1, Q7.39.7]

.727726 General Revenues

.727726-1 Q—Does the requirement to report *all taxes* as general revenues in paragraph .143 of this section apply to taxes imposed by another government that are shared with the reporting government?

A—No. The requirement in paragraph .143 applies to taxes levied or imposed by the reporting government on its own taxpayers. Taxes imposed or levied by another government and shared with the reporting government are regarded as *shared revenues* and should be reported as either program or general revenue based on the requirements in paragraph ~~.139138~~ of Section 2200. (See Question .716-8 in Section 2200.)

[GASBIG 2015-1, Q7.35.1]

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~~.727~~~~726~~-2 Q—A county government imposes a separate sales tax, the proceeds of which are required to be used for public safety or health and welfare programs. Because of the restrictions on use, these taxes are not “discretionary” revenues. Should they be reported as program revenues of the public safety and health and welfare functions?

A—No. As taxes imposed by the reporting government, they should be reported as general revenues. General revenue is not synonymous with discretionary revenue. Even though the taxes cannot be used for any other purposes, they are general revenues, as stated in paragraph .143 of this section. Program revenues, as defined in paragraph .142 of this section, derive directly from the program itself or from parties outside the reporting government’s taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government’s general revenues. These derived tax revenues are levied against *all* sales transactions—not only those within the public safety and health and welfare environments. Thus, the revenues do not derive directly from the programs themselves, but rather they are *restricted* general revenues provided by the reporting government’s constituency to finance the net cost of *specific* programs. (See Question .726-3 in this section about separately reporting dedicated tax revenues.)

[GASBIG 2015-1, Q7.35.2]

~~.727~~~~726~~-3 Q—If a city levies a special property tax that is restricted for use within a specific program or function (a separate property tax levied to pay debt service costs, for example), is that property tax revenue considered a *program* revenue?

A—No. Even though the taxes are required to be used for a specified purpose within a single function, they are, nevertheless, general revenues. In this example, the special property tax levy does not *reduce the net cost* of the general government function to the city’s taxpayers. Rather, it is one source of revenues from the city’s taxpayers to *pay the net cost* of the general government function. The government can, however, report the dedicated property taxes as a separate line item in the general revenues section. (See Exhibit 2 in nonauthoritative paragraph .902 of this section.)

[GASBIG 2015-1, Q7.35.3]

~~.727~~~~726~~-4 Q—A county government has enacted a transient occupancy (hotel–motel) tax, a percentage of which is required to be used for “tourism” programs in the county. The county has significant tourism activity and reports it as a separate function in its statement of activities. The county maintains that the revenue comes from “those who directly benefit from

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the goods or services of the program” and consequently should be reported as charges for services. Should those taxes be reported as program revenues?

A—No. Despite the argument that the taxes are tantamount to user fees generated by the tourism program, they are nevertheless *taxes* and should be reported as general revenue (restricted to tourism programs), as required by paragraph .143 of this section. The relationship of the program to the tax is too indirect to be treated as user fees. Although the lodging industry in the county certainly benefits from the tourism activity, it is not reasonable to assume that it results from it. For example, many travelers use lodging facilities but do not engage in “tourism” activities. (See Question .726-3 in this section about separately reporting dedicated tax revenues.)

[GASBIG 2015-1, Q7.35.4]

.727~~726~~-5 Q—A developer is near completion of an industrial park. In accordance with city laws and regulations, the developer is required to make a one-time contribution of resources to the city when the industrial park’s infrastructure is substantially complete to assist the city in maintaining the infrastructure. The resources required to be contributed are based on the assessed value of the developed property. How should the contribution by the developer be reported?

A—The contribution should be reported as general revenue (and may be reported separately as “restricted for infrastructure maintenance”). Even though the contribution appears to meet the definition of a *program-specific grant* in paragraph ~~.139~~138 of Section 2200, it nevertheless arises from an imposed nonexchange transaction that is, in substance, a tax. The unspent resources should be reported as a restricted component of net position (for example, restricted for infrastructure maintenance) in the city’s statement of net position.

[GASBIG 2015-1, Q7.35.5]

.727~~726~~-6 Q—Are operating special assessments considered general revenues like property taxes? Both revenues derive from property owners.

A—No. Although both special assessments and property tax revenues are derived from property owners, as indicated in paragraph ~~.138~~137 of Section 2200, operating special assessments are program revenues. Operating special assessments differ from property taxes in the sense that only the property owners who benefit from the special assessment project are assessed. For example, the property owners in a remote area of town want additional snow-plowing services and agree to a special assessment to pay the town for those additional services. Only the property owners whose streets

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are plowed (rather than the entire real estate tax base) are assessed; thus, the assessments are equivalent to *charges for services* and qualify as program revenues.

[GASBIG 2015-1, Q7.36.1]

~~.727~~~~26~~-7 Q—Are *capital* special assessments also program revenues?

A—Yes. Capital special assessments qualify as program revenues in the “program-specific capital grants and contributions” category. As described in paragraph .105 of Section S40, capital special assessments enhance the utility, accessibility, or aesthetic value of the affected properties. The benefited property owners pay the government for those improvements through special assessments, either in a lump sum or in installments over time. Paragraphs .119, ~~.122~~, and ~~.123~~ ~~.122~~ of Section S40 characterize the property owner assessments as *capital contributions*.

[GASBIG 2015-1, Q7.36.2]

~~.728~~~~727~~ **Reporting Contributions to Term and Permanent Endowments, Contributions to Permanent Fund Principal, Transfers, Special and Unusual or Infrequent Extraordinary Items, and Transfers**

See also Question .704-2 in Section 1300, “Fund Accounting,” for a discussion of reporting of permanent endowments by special-purpose governments engaged only in business-type activities, Question ~~.754~~~~753~~-3 in Section 2200 for a discussion of reporting investment income restricted to increasing term or permanent endowments, and Question ~~.754~~~~753~~-4 in Section 2200 for a discussion of reporting a reassignment of a capital asset between an enterprise fund and governmental activities.

~~.728~~~~727~~-1 Q—A local government receives a large bequest from the estate of a wealthy benefactor. The corpus of the donation cannot be spent but instead is required to be invested to provide earnings that are restricted to a special use. Because the principal amount can never be spent, how should it be reported?

A—The government should account for the bequest in a permanent fund. (See Question .704-2 in Section 1300.) In the governmental fund statements, the donation should be reported as an inflow of short-term financial resources ~~revenue~~ and ultimately would be included in nonspendable fund balance. For the government-wide statement of activities, paragraph .144 of this section requires contributions to permanent funds to be reported separately from, but in the same manner as, general revenues. That is, these sources of financing the net cost of the government’s programs should be reported at the bottom of the statement of activities to arrive at the all-inclusive change in net position for the period. In the government-wide statement of net

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position, the corpus of the donation should be included in the restricted component of net position, nonexpendable. (See also Question .736-1 in this section about how permanent endowments are reported in net position.)

[GASBIG 2015-1, Q7.42.1, as amended by GASBS XX, ¶22]

.729728 Reporting Unusual or Infrequent Extraordinary and Special Items in Government-Wide Statement of Activities

.728-1 **Q** What is the difference between “extraordinary” items and “special” items?

A ~~Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. Special items differ from extraordinary items in two ways. The first difference is that special items should be within the control of management, whereas extraordinary items are not required to be within the control of management. The other difference is that extraordinary items are required to be both unusual in nature and infrequent in occurrence, whereas special items are only unusual in nature or infrequent in occurrence, but not both.~~

Determining whether an event or transaction is extraordinary or special and therefore should be reported separately is a matter of professional judgment and should be done on a case-by-case basis considering geographic location and size and type of government. An event that is infrequent in occurrence for one government may be commonplace for another. Similarly, what is unusual for one government may be ordinary for another. Examples of events or transactions that may qualify as extraordinary or special items may include:

Extraordinary items:

- ~~• Costs related to an environmental disaster caused by a large chemical spill in a train derailment in a small city.~~
- ~~• Significant damage to the community or destruction of government facilities by natural disaster (tornado, hurricane, flood, earthquake, and so forth) or terrorist act. Geographic location of the government may determine if a weather-related natural disaster is *infrequent*.~~
- ~~• A large bequest to a small government by a private citizen.~~

Special items:

- ~~• Sales of certain general governmental capital assets~~
- ~~• Termination benefits resulting from workforce reductions due to sale of utility operations~~
- ~~• Early retirement program offered to all employees~~

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[superseded by GASBS XX, ¶9]

- ~~—, superseded by GASBS XX, ¶9~~ Significant forgiveness of debt
- ~~Gains or losses on the disposal of government operations~~
- ~~Net position received or assumed by a continuing government in a transfer of operations.~~

[GASBIG 2015-1, Q7.43.2]

~~.728-2~~ Q—Can a transaction or event meet the definition of *both* an extraordinary item *and* a special item? If so, how should it be reported?

A—No. If a transaction or event is both unusual in nature and infrequent in occurrence, it should be reported as an extraordinary item without regard to management involvement.

[GASBIG 2015-1, Q7.43.4]

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.730 Reporting Unusual or Infrequent Extraordinary and Special Items in Fund Financial Statements

~~.730~~~~.729-1~~ Q—For ~~unusual or infrequent~~ ~~special and extraordinary~~ items, at which level—government-wide or fund reporting—is “materiality” or “significance” determined?

A—Determining the materiality or significance of a transaction for purposes of separately reporting unusual or infrequent ~~extraordinary and special~~ items is relative to the focus of the particular financial statement in question. Because the government-wide statement focuses on governmental and business-types *activities*, the transaction should be evaluated in relation to the appropriate type of activity—either governmental or business-type. The fund financial statements emphasize *major funds*; thus, a transaction should be evaluated in the context of the major fund, or nonmajor funds in the aggregate. (See Question .729-2 in this section about unusual or infrequent ~~special and extraordinary~~ items and Questions .702-5, .729-1, .729-2, and .730-1 in Section 2200 and Questions .705-10–.705-12 in Section 2600 about materiality in preparing financial statements.)

[GASBIG 2015-1, Q7.67.1, as amended by GASBS XX, ¶9 and ¶10]

~~.730~~~~.729-2~~ Q—Can a transaction be reported as ~~an unusual~~ ~~a special~~ or ~~infrequent~~ ~~extraordinary~~ item in the fund financial statements but not in the statement of activities?

A—Yes. For example, assume that a government sold a significant governmental capital asset for a large amount, but at a negligible gain or loss. Significant proceeds from the sale would be reported in the governmental fund financial statements; however, because the gain or

loss is insignificant, it would not be reported as an unusual or infrequent ~~special~~ item in the statement of activities. On the other hand, the reverse situation—a transaction is an unusual or infrequent ~~extra-~~ item

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~~ordinary or special item~~ in the statement of activities but not in the fund financial statements—also could occur. For example, a local government assumes the debt of another organization, either because it is required to as a guarantor, or because it chooses to under a “moral” obligation. Because this debt arises from a long-term transaction, the debt would be recognized as payments become due. There ~~has been no flow of financial resources; thus, there is no~~ unusual extraordinary or infrequent special item required to be reported in the statement of short-term financial resource flows ~~revenues, expenditures, and changes in fund balances~~. In the statement of activities, however, the event results in a change in net position and would be reported.

[GASBIG 2015-1, Q7.67.2, as amended by GASBS XX, ¶9, ¶11, and ¶23]

~~.729-3 Q—Do the additional display/disclosure requirements in paragraph .152 of this section (for significant transactions or other events that are either unusual or infrequent but are not within the control of management) for governmental funds also apply to proprietary funds?~~

~~A—The display/disclosure requirements in paragraph .152 apply only to governmental fund reporting. Because proprietary funds are subject to the requirements of paragraphs .145–.150 of Section 2200, paragraph .152 does not refer to proprietary funds. (See Question .728-1 in this section about *unusual* and *infrequent*.)~~

[GASBIG 2015-1, Q7.72.6]

~~.730~~ superseded by GASBS XX, ¶10

.731 Reporting Assets and Liabilities in Government-Wide Financial Statements

~~No questions assigned.~~

.731 Reporting Assets and Liabilities in Proprietary Funds

No questions assigned.

.732 Reporting Assets and Liabilities in Proprietary Funds

No questions assigned.

.733 Reporting Net Position in Government-Wide Financial Statements

~~.733~~ .732-1 Q—A government accrues and reports a long-term liability for accretion of interest on deep-discount (capital appreciation) debt that was issued for the construction of general governmental capital assets. Which component of net position should be reduced by the liability?

A—Accrued interest on any capital-related debt, including deep-

discount debt, generally should not be included in the computation of the *net investment in capital assets* component of net position. The amount of the “borrowing attributable to the acquisition, construction, or improvement” of a capital asset is the proceeds, rather than the total amount, including interest, that will be paid at maturity.

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Generally, the accrued interest liability would be included in unrestricted net position. However, if the government has established a “sinking” fund to accumulate cash to pay off the debt at maturity, the accrued interest would be included in (reduce) the same component of net position as the sinking fund resources.

[GASBIG 2015-1, Q7.22.9]

.733732-2 Q—In which component of net position should *capital* assets with externally imposed restrictions (for example, federal surplus property) be reported?

A—All capital assets, including those that are subject to restrictions, should be included in the *net investment in capital assets* component of net position. The requirement to segregate restricted and unrestricted components of net position was established primarily to provide information about the availability of *financial* resources.

[GASBIG 2015-1, Q7.23.1]

.733732-3 Q—A government issues bonds late in the year to purchase capital assets. The proceeds are received, but no capital assets have been purchased as of the short-term financial resources balance sheet date. Which component of net position should include the debt?

A—If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should *not* be included in the calculation of the *net investment in capital assets* component of net position. Rather, that portion of the debt should be included in the same net position component as the unspent proceeds—for example, *restricted for capital projects*. Therefore, if no capital assets have been purchased or constructed from the debt proceeds, the entire amount of the debt would reduce *net position restricted for capital projects*. If some capital assets have been purchased or constructed from the debt proceeds, that portion of the debt would be considered “capital-related.” The remainder—the unspent portion of the debt—would be included in the calculation of *net position restricted for capital projects*. Generally, the effect on net position will be negligible—restricted cash will approximate related debt outstanding. Reporting both within the same classification of net position prevents one classification from being overstated while another is understated by a similar amount.

[GASBIG 2015-1, Q7.23.2, as amended by GASBS XX, ¶11]

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~~.733-732~~-4 Q—Which component(s) of net position do prepaid bond insurance costs, premiums and discounts, and deferred outflows of resources or deferred inflows of resources from refundings affect—net investment in capital assets, restricted, or unrestricted?

A—Premiums, discounts, and deferred outflows of resources or deferred inflows of resources from refundings “follow the debt” in calculating the components of net position. That is, if debt is capital related, those amounts would be included in the calculation of the *net investment in capital assets* component of net position. If the debt is restricted for a specific purpose and the proceeds are unspent, the net proceeds would affect the *restricted* component of net position. Reporting both within the same component of net position prevents one classification from being overstated while another is understated by the same amount. If the debt proceeds are not restricted for capital or other purposes, the unamortized premiums, discounts, and deferred outflows of resources or deferred inflows of resources from refundings would be included in the calculation of unrestricted net position.

Prepaid bond insurance costs should be included in the unrestricted component of net position because those outlays do not acquire, construct, or improve capital assets. If the prepaid bond insurance costs were paid from bond proceeds, the portion of outstanding debt attributable to those insurance costs also should be included in the unrestricted component of net position.

[GASBIG 2015-1, Q7.23.3]

~~.733-732~~-5 Q—A general purpose government issues bonds to construct school buildings for the school districts within its geographic boundaries. The bonds are a liability of the issuing government, but the buildings will be reported as capital assets of the respective legally separate school districts. Which component of the government's net position should be reduced by the long-term debt?

A—The issuing government acquires no capital assets; therefore, the debt is not “capital-related.” The effect of the noncapital debt should be reflected in the *unrestricted* component of the government's net position. The fact that the bonds are related to capital assets of another entity does not make the debt “capital” debt of the issuing government—even though the assets acquired may benefit its residents. The government has incurred a liability, decreasing its net position, with no corresponding increase in its capital or financial assets. The effect on the government's total net position should be the same regardless of whether it (1) gave the school districts cash from existing resources, (2) constructed the buildings and donated them to the

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schools, or (3) issued debt to finance the construction. In all three instances, the government has decreased its net position.

If the effect on unrestricted net position is significant, the government may disclose additional details of unrestricted net position in the notes to the financial statements to isolate the effect of debt issued for others. The government may also address these circumstances in MD&A as part of either the net position or debt discussions.

[GASBIG 2015-1, Q7.23.10]

.733-6 Q—Which component of net position should include an equity interest in a joint venture?

A—An equity interest in a joint venture that is reported as an asset in the government-wide statement of net position (or as an asset of an enterprise fund) should be included in the computation of the unrestricted component of net position. An equity interest in a joint venture is generally not restricted, as defined in paragraph .157 of this section, nor is it a capital asset, even though it may represent equity primarily in capital assets of the joint venture. (See Question .706-2 in Section J50 about governmental fund reporting.)

[GASBIG 2015-1, Q7.25.1]

.734-33 Net Investment in Capital Assets Component of Net Position

.734-33-1 Q—A county government issues debt to finance the construction of school facilities for the local school district, a discretely presented component unit of the county. The county reports the debt and the school district reports the capital assets (see Question .702-2 in Section 1500 and Question .732-5 in this section); therefore, the debt is not considered to be “capital-related” debt of the county. In the reporting entity financial statements, if the county elects to present an optional “reporting entity” total column, can the debt be reported as capital debt in that total column?

A—Yes. When the total reporting entity is presented as the reporting unit, the debt is related to capital assets within that reporting unit. Consequently, the *unrestricted* component of net position and the *net investment in capital assets* component of net position of the reporting entity are not equal to a simple combination of those net position components of the primary government and its component units. An explanation of the reclassification could be presented in the notes to the financial statements.

[GASBIG 2015-1, Q7.7.6]

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~~.734733~~-2 Q—A government that operates a municipal solid waste landfill (MSWLF) reports a liability for closure and postclosure care in accordance with the requirements of Section L10, “Landfill Closure and Postclosure Care Costs.” Should some or all of the liability be considered “capital-related debt” for purposes of calculating the net position components?

A—No. Paragraph .107 of Section L10 states that equipment and facilities included in the estimated total current cost of closure and postclosure care should not be reported as capital assets but, rather, should be reported as a reduction of the accrued liability for MSWLF closure and postclosure care when they are acquired. Therefore, because the closure and postclosure liability already has been reduced by the cost of capital assets acquired, the remaining liability cannot be attributed to the purchase or construction of capital assets. The liability would be included in the calculation of unrestricted net position, or if the liability is funded and the assets are restricted, it would reduce restricted net position.

[GASBIG 2015-1, Q7.22.15]

~~.734733~~-3 Q—In which component of net position should *capital* assets with externally imposed restrictions (for example, federal surplus property) be reported?

A—All capital assets, including those that are subject to restrictions, should be included in the *net investment in capital assets* component of net position. The requirement to segregate restricted and unrestricted components of net position was established primarily to provide information about the availability of *financial* resources.

[GASBIG 2015-1, Q7.23.1]

~~.734733~~-4 Q—How is the “unspent portion” of capital debt proceeds determined?

A—The precision with which the unspent proceeds can be determined depends on the government’s accounting records. Most governments are required to, or choose to, account for bond issues separately—either in separate funds or in an account or memorandum fashion in a multipurpose fund—and can identify what has been spent and what remains. Those governments whose accounting systems do not lend themselves to that type of specific tracking should use their best estimates—in a manner that can be documented—to determine the unspent portion.

[GASBIG 2015-1, Q7.23.4]

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~~.734733~~-5 Q—Often, debt is issued for capital purposes, but some of the proceeds are spent for assets that are not capitalized. Should some of the debt be removed from the *net investment in capital assets* component of net position?

A—Governments are not expected to categorize all uses of bond proceeds to determine how much of the debt actually relates to assets that have been capitalized. Unless a significant portion of the debt proceeds is spent for noncapitalizable purposes, the entire amount could be considered “capital-related.”

[GASBIG 2015-1, Q7.23.5]

~~.734733~~-6 Q—If debt is issued to refund existing capital-related debt, is the new debt also considered capital-related?

A—Yes. Even though the direct connection between the capital assets and the debt issued to finance the construction or acquisition has been eliminated, the replacement debt assumes the capital characteristics of the original issue. However, if the new issue is refunding capital appreciation debt, only the portion of the new debt that refunds the original principal of the old debt should be considered capital-related. (See Question .732-1 in this section about capital appreciation debt.)

[GASBIG 2015-1, Q7.23.6, as amended by GASBIG 2016-1, Q5.14]

~~.734733~~-7 Q—If a government has capital assets, but no related debt or deferred inflows of resources, may the net position account be titled “investment in capital assets”?

A—Yes. The net position title “net investment in capital assets” denotes that there is capital debt or deferred inflows of resources and may mislead readers if used when there is no debt or deferred inflows of resources.

[GASBIG 2015-1, Q7.23.7]

~~.734733~~-8 Q—Should capital debt that is related to capital assets that are not being reported, as might occur prior to retroactively reporting infrastructure or for phase 3 governments that choose not to retroactively report infrastructure, be classified in the *net investment in capital assets* component of net position?

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A—Yes. The *net investment in capital assets* component of net position should include all debt associated with the reporting government's capital assets. (See Question .733-9 in this section about reporting negative net position.)

[GASBIG 2015-1, Q7.23.8]

~~.734~~~~733~~-9 Q—If outstanding capital debt exceeds the carrying value of capital assets reported, what caption should be used for the net position component?

A—The account title “net investment in capital assets” should be used, even if the amount is negative. Reporting in that manner informs the financial statement reader that there is capital debt.

[GASBIG 2015-1, Q7.23.9]

~~.734~~~~733~~-10 Q—A government made an interfund loan from its general fund to an enterprise fund for the purpose of purchasing capital assets. Does the advance due to the general fund constitute capital-related debt in the enterprise fund?

A—No. Interfund advances are not considered debt or other borrowing for purposes of calculating the net position components. Interfund balances are included in the computation of unrestricted net position. (See also Question .733-15 in this section about reclassified balances with blended component units.)

[GASBIG 2015-1, Q7.23.11]

~~.734~~~~733~~-11 Q—A discretely presented component unit issued highway construction bonds and remitted the proceeds to the primary government. The primary government used the proceeds to construct new infrastructure assets. The bonds are a liability of the component unit and are secured by, and payable solely from, annual appropriations from the primary government. The primary government has pledged certain of its future federal transportation revenues to provide the resources for the annual appropriations. Should the bonds be regarded as capital-related debt of the component unit?

A—No. The bonds do not represent capital-related debt of the component unit because it did not use the proceeds to acquire, construct, or improve the component unit's capital assets. The primary government should report the proceeds received as a liability to the component unit because it is obligated to repay the component unit with the pledged future revenues. The primary government should consider the liability to the component unit as capital-related debt, to the extent that the proceeds have been spent on highway construction. Unspent proceeds would be a factor in calculating restricted net position. The

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bonds payable reported by the component unit should be considered noncapital (and, therefore, enter into the calculation of unrestricted net position) because the proceeds were used to acquire the receivable from the primary government, rather than capital assets. (See Question .733-1 in this section about reporting entity display options and Question .733-15 in this section about reclassified balances with blended component units.)

[GASBIG 2015-1, Q7.23.12]

~~.734~~~~733~~-12 Q—Should construction retainages payable be considered capital-related debt for purposes of calculating the *net investment in capital assets* component of net position?

A—A retainage payable represents a liability attributable to the acquisition, construction, or improvement of capital assets (in this case, construction in progress) and retainage liabilities should be included in that net position calculation. (See also Question .733-13 in this section about projects financed with bond proceeds.)

[GASBIG 2015-1, Q7.23.13]

~~.734~~~~733~~-13 Q—Is the answer to Question .733-12 in this section the same if the construction project is financed with bond proceeds?

A—Yes. If the project is financed with bond proceeds, the amount of the retainage is attributed to the construction in progress, and would be included in the net investment in capital assets component of net position. The unspent bond proceeds together with the portion of the debt attributable to the unspent proceeds would be included in the restricted component of net position calculation. (Generally, debt issuance does not create net position; therefore, a portion of the debt will be netted against remaining investments.) Thus, “capital-related debt” in this situation includes the portion of the bonds payable that has been spent on the capital construction, plus retainages and accounts payable attributable to that construction.

[GASBIG 2015-1, Q7.23.14]

~~.734~~~~733~~-14 Q—A government issues crossover refunding bonds to refund capital-related debt. In a crossover refunding, both the refunded debt and the refunding issued debt are reported on the statement of net position until the crossover date. In calculating net position, are both the refunded and refunding debt included in “net investment in capital assets” or should the refunding bonds be netted against the restricted assets that are set aside for refunding the old bonds on the crossover date?

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A—The refunding debt is not capital related until it refunds (defeases) the old debt, which normally occurs at the crossover date. Prior to that time, the refunding debt likely would not significantly affect net position because the refunding bond liability would generally equal the remaining cash and investments associated with the refunding bond proceeds. At the defeasance of the old debt, the refunding debt takes on the characteristics of the old debt and would be included in the calculation of “net investment in capital assets.”

[GASBIG 2015-1, Q7.23.15]

~~.734~~**733-15** Q—A primary government that is a business-type activity consists of several enterprise funds and includes its financing authority as a blended component unit (as an additional enterprise fund) in its financial reporting entity. The blended component unit issued bonds and loaned the proceeds to the primary government for constructing and acquiring capital assets. In its separate financial statements, the financing authority reports the bonds payable and recognizes a loan receivable from the primary government. Accordingly, the primary government recognizes a loan payable to the component unit as a liability and the capital assets acquired and constructed with the proceeds of the loan as assets. When the component unit is blended into the financial reporting entity as a separate enterprise fund, the loan receivable from the primary government and loan payable to the component unit are reclassified as internal balances, as required by paragraph .103 of this section. For purposes of classifying net position within the reporting entity, does the primary government or the blended component unit have “capital-related” debt?

A—The primary government’s enterprise fund, in which the capital assets are reported, should consider the loan payable to the component unit as capital-related debt, even though, for presentation purposes, the debt has been reclassified as an internal balance. The blended component unit should regard the bonds payable as noncapital debt because the proceeds were used to acquire the receivable from the primary government, rather than capital assets. (See Question .733-11 in this section.) That conclusion differs from the answer to Question .733-10 in this section, which addresses an interfund advance within the same legal entity, rather than a borrowing between legally separate entities that has been reclassified. (See Question .704-11 in Section 2600 regarding eliminations.)

[GASBIG 2015-1, Q7.23.16]

~~.734~~**733-16** Q—Restricted assets have been accumulated to pay the current maturity of bonds payable that are classified as capital-related debt.

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Which component of net position should the current portion of the debt reduce— restricted net position or the net investment in capital assets component of net position?

A—Bonds issued for the acquisition, construction, or improvement of capital assets should be regarded as capital-related debt. Despite the fact, in this example, that financial resources have been set aside in a restricted account to pay the current installment, the debt meets the definition of capital-related debt and should be treated as such in the calculation of the net position components.

[GASBIG 2015-1, Q7.24.2]

~~.734733~~ **.734733-17** Q—A government issues bonds for capital construction but is required by the bond indenture to establish a bond and interest reserve from the proceeds. The cash and investments in the bond and interest reserve are included in the calculation of restricted net position. Should the portion of the debt attributable to the establishment of the reserve be included in the calculation of the *net investment in capital assets* or *restricted* component of net position?

A—The restricted component. Because the resources initially deposited into the reserve account represent proceeds of debt that were not “attributable to the acquisition, construction, or improvement” of capital assets, that portion of the debt should be included in the calculation of restricted net position. The resources in the reserve constitute *unspent proceeds*. If there are accumulated earnings from investing the resources in the reserve account, they should be included in the calculation of either restricted net position or unrestricted net position, as appropriate. (See also Questions .732-3 and .732-4 in this section about treatment of unspent proceeds and Question .736-6 in this section about liabilities related to restricted assets.)

[GASBIG 2015-1, Q7.24.25]

~~.735734~~ **.735734 Restricted Component of Net Position**

~~.735734-1~~ **.735734-1** Q—Net position is reported in three components. (See Question .708-6 in Section 2200.) Paragraph 8 of Statement 63 and paragraph 35 of Statement 34, as amended, also set forth reporting requirements for supporting details of restricted net position. Can those details (major categories, expendable/ nonexpendable) be provided in the notes?

A—No. Paragraphs .155 and .161 of this section both state that the information should be *displayed*; therefore, disclosure is not an option. However, paragraph .157 of this section requires that the amount of net position restricted

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by enabling legislation be disclosed in the notes to the financial statements. (See Question .732-5 in this section about disclosing unrestricted net position details that are *not* required.)

[GASBIG 2015-1, Q7.22.8]

.735734-2 Q—When should net position be reported as restricted?

A—Restricted net position, as defined in paragraph .157 of this section, should be reported when constraints placed on net position use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling legislation.

The basic concept is that restrictions are not unilaterally established by the reporting government itself and cannot be removed without the consent of those imposing the restrictions or through formal due process.

The definition of *restricted* in paragraph .157 is intended to identify resources that were received or earned by the government with an explicit understanding between the government and the resource providers that the funds would be used for a specific purpose. For example, grants, contributions, and donations are often given under those kinds of conditions. Bond indentures similarly limit the use of proceeds.

[GASBIG 2015-1, Q7.24.1]

.735734-3 Q—Restricted assets have been accumulated to pay the current maturity of bonds payable that are classified as capital-related debt. Which component of net position should the current portion of the debt reduce— restricted net position or the net investment in capital assets component of net position?

A—Bonds issued for the acquisition, construction, or improvement of capital assets should be regarded as capital-related debt. Despite the fact, in this example, that financial resources have been set aside in a restricted account to pay the current installment, the debt meets the definition of capital-related debt and should be treated as such in the calculation of the net position components.

[GASBIG 2015-1, Q7.24.2]

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~~.735~~~~734~~-4 Q—How precise should the specific purpose be for resources to be considered *restricted* in the statement of net position?

A—The determination of whether resources should be classified as restricted in the government-wide statement of net position begins at the fund level. The purpose can be broad or narrow and still be considered restricted, as long as the constraints meet the definition in paragraph .157 of this section. However, the purpose should not be so broad that, in substance, it establishes no purpose restrictions narrower than the general restriction of the activity. For instance, resources that are required to be used for “governmental activities” are not considered restricted in the general fund. Similarly, resources that are required by a rate-payer agreement to be used only for “water and sewer fund purposes” should not be classified as restricted in the water and sewer fund. (See Question .734-16 in this section about reporting restricted net position for business-type activities.)

[GASBIG 2015-1, Q7.24.4]

~~.735~~~~734~~-5 Q—A general state statute pertaining to local government finances requires that “revenues derived from a fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.” If certain fees of a local government in that state have been charged for the purpose of future infrastructure replacement, should those accumulated fees be reported as *restricted net position* in the statement of net position?

A—Yes. The general statute applies to all jurisdictions in the state and creates a legally enforceable restriction on the use of resources raised through fees and charges. Therefore, in this example, the residual net position should be displayed in a restricted net position account.

[GASBIG 2015-1, Q7.24.5]

~~.735~~~~734~~-6 Q—Does the restricted component of net position represent only restricted assets, or do liabilities or deferred inflows of resources *related to those assets* affect the balance?

A—The restricted component of net position represents restricted assets reduced by liabilities, as well as deferred inflows of resources, related to those assets. Generally, a liability relates to restricted assets if the assets result from incurring the liability or if the liability will be liquidated with the restricted assets. (Nonauthoritative paragraph .903 of this section illustrates the calculation of net position components for governmental activities. See also Question .733-16 in this section regarding the current maturities of capital debt that will be liquidated with restricted assets)

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.734-9, .736-7, and .736-8 in this section regarding reporting of restricted assets.)

[GASBIG 2015-1, Q7.24.7, as amended by GASBIG 2018-1, Q5.6]

.735734-7 Q—In computing the restricted component of net position, are governments required to “close” nominal accounts into that component? That is, is it necessary to account for the change in the net position balance by adding restricted revenues and deducting expenses incurred for the specified purposes?

A—No. This section and Section 2200 follow a change in the *total net position* approach and do not require presentation of a statement of changes in the *components* of net position, nor do they require disclosure of the changes in restricted net position. The concept of restricted net position focuses on balances rather than transactions. *Restricted net position* is composed of restricted assets, reduced by reported claims against those assets. Therefore, if a government has net position at year-end that is *subject to a legally enforceable restriction on its use*, that net position should be reported as restricted in the statement of net position. (See Question .736-3 in this section about the effect of using restricted resources for other purposes.)

[GASBIG 2015-1, Q7.24.8]

.735734-8 Q—A state legislature passes a law to “earmark” a percentage of the state’s sales tax revenues for a specific purpose. Does this action constitute enabling legislation that would restrict components of net position in the state’s financial statements?

A—No. “Earmarking” an existing revenue is not equivalent to enabling legislation. The state legislature’s action constitutes a commitment rather than a restriction for financial reporting purposes. The limitations can be removed by an equivalent action of the legislature.

The enabling legislation part of the definition in paragraph .157 of this section covers situations when the government passes a law that gives it the ability to levy a tax or otherwise raise revenues, and *in that law*, the government states that it will use those resources for a particular purpose. That arrangement is tantamount to a legally binding agreement between the government and the resource providers (the taxpayers) establishing limitations on how those funds can be used. The government generally cannot unilaterally decide to do something else with those resources. Furthermore, the government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use the resources only for

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the purposes specified by the enabling legislation. (See Question .736-2 in this section about subsequent amendments to enabling legislation.) This is different from situations when a government passes a law that says the use of existing resources is limited to a specific purpose or “earmarks” a portion of an existing revenue source. In those two situations the government does not obtain funds under restrictive conditions; thus, the limitations imposed do not create restrictions. (See Questions .726-2–.726-4 in this section about reporting restricted general revenues.)

[GASBIG 2015-1, Q7.24.11]

~~.735~~~~734~~-9 Q—Can restricted net position be reported as a negative amount?

A—No. Negative amounts should not be reported for any category of restricted net position. If liabilities and deferred inflows of resources that relate to specific restricted assets exceed those assets, no restricted component of net position should be reported—the net negative amount should reduce unrestricted net position. Restricted net position is intended to portray, at the date of the statement of net position, the extent to which the government has assets that can only be used for specific purposes (after recognizing the specific liabilities that will be liquidated with those assets, or the specific liabilities and deferred inflows of resources from which the assets resulted). If the related liabilities and deferred inflows of resources exceed the assets on hand, the “shortfall” by default is covered by unrestricted assets. (See also Questions .734-6 and .734-7 in this section and nonauthoritative paragraph .903 of this section.)

[GASBIG 2015-1, Q7.24.13]

~~.735~~~~734~~-10 Q—Paragraph .155 of this section requires that restricted net position be reported by major categories of restrictions. Furthermore, paragraph .157 of this section states that the amount of a primary government’s net position restricted by enabling legislation should be disclosed in the notes to the financial statements. Should the net position restricted by enabling legislation be disclosed using the major categories displayed in the government-wide statement of net position?

A—A government may choose to disclose net position restricted by enabling legislation by major categories of restrictions. Likewise, a government may elect to disclose net position restricted by enabling legislation separately for governmental and business-type activities. However, it is acceptable

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to disclose a single amount for the primary government. If the government does not have net position restricted by enabling legislation, no disclosure is required.

[GASBIG 2015-1, Q7.24.16]

.735734-11 Q—A city council passes legislation that places a proposition on the ballot to install parking meters in city-owned parking lots and utilize the proceeds only for repairing and maintaining those lots. The ballot proposition is approved by a majority vote at a subsequent public election. Should the resources generated by the parking meters be disclosed in the notes to the financial statements as net position restricted by enabling legislation?

A—No. Although the resources should be reported as restricted net position, they are not restricted by enabling legislation. The voters' approval of the ballot measure is the act that authorizes the installation of the parking meters and restricts the use of the proceeds; the legislation passed by the city council placed the proposition on the ballot, but the approval of the ballot measure authorized the imposition of parking fees. Consequently, the limitation on the use of the proceeds was imposed by parties outside of the reporting government and qualifies as a restriction under paragraph .157a of this section rather than paragraph .157b of this section.

[GASBIG 2015-1, Q7.24.21]

.735734-12 Q—A state passes a law allowing local governments to levy a special property tax, the proceeds of which can only be used to pay tort liabilities. If a local government levies the tax, should the revenues be disclosed in the notes to the financial statements as net position restricted by enabling legislation?

A—No. Although the resources should be reported as restricted net position, they are not restricted by enabling legislation. The local legislation that levies the special property tax may specify that the tax can only be used to pay tort liabilities, but the limitation on how the tax revenues may be used is actually imposed by the state government. As in Question .734-11 in this section, the purpose restriction is imposed by a party outside of the reporting government, rather than by the reporting government itself.

[GASBIG 2015-1, Q7.24.22]

.735734-13 Q—A state government passes enabling legislation that authorizes the raising of a gasoline tax and contains a legally enforceable restriction limiting the use of the revenues to street and highway projects. The legislation also requires the state to share a portion of the revenues with county governments.

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Should both the state and the counties disclose the revenues as net position restricted by enabling legislation?

A—Both the state and the counties would report the net position as restricted. However, *only the state government* would disclose the net position generated by the gasoline tax as restricted by enabling legislation. From the perspective of the counties, the net position is restricted by limitations imposed by the state, an outside party.

[GASBIG 2015-1, Q7.24.23]

~~.735734~~-14 Q—A government passes enabling legislation that creates a tax and restricts its use to operating and maintaining parking facilities. The government also issues debt for constructing parking facilities, with a covenant that a certain portion of the tax revenue be set aside as a reserve. How should the government distinguish between resources restricted by the enabling legislation versus the bond covenant?

A—The bond covenant places an additional, more restrictive limitation on the use of a portion of the tax revenues but for a purpose that is nonetheless consistent with the overall limitation imposed by the enabling legislation. The portion of net position represented by the reserve should be reported as restricted for debt service (or similar category of restriction) but not disclosed as net position restricted by enabling legislation as required by paragraph .157 of this section. The remainder of the resources from the tax, if any, should be reported as restricted for parking facilities (or similar category of restriction) and disclosed as net position restricted by enabling legislation.

[GASBIG 2015-1, Q7.24.24]

~~.735734~~-15 Q—A government issues bonds for capital construction but is required by the bond indenture to establish a bond and interest reserve from the proceeds. The cash and investments in the bond and interest reserve are included in the calculation of restricted net position. Should the portion of the debt attributable to the establishment of the reserve be included in the calculation of the *net investment in capital assets* or *restricted* component of net position?

A—The restricted component. Because the resources initially deposited into the reserve account represent proceeds of debt that were not “attributable to the acquisition, construction, or improvement” of capital assets, that portion of the debt should be included in the calculation of restricted net position. The resources in the reserve constitute *unspent proceeds*. If there are accumulated earnings from investing the resources in the reserve account,

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they should be included in the calculation of either restricted net position or unrestricted net position, as appropriate. (See also Questions .732-3 and .733-4 in this section about treatment of unspent proceeds and Question .734-6 in this section about liabilities related to restricted assets.)

[GASBIG 2015-1, Q7.24.25]

.735734-16 Q—Should unrestricted net position reported in an enterprise fund be reclassified as restricted net position of business-type activities in the government-wide statements because the scope of business-type activities is broader than the single purpose of an individual enterprise fund? For example, should unrestricted net position of a water utility fund be considered “restricted to water utility operations” when that fund is combined with other funds to comprise business-type activities in the government-wide statements?

A—No. Even though a statute, ordinance, or rate-payer agreement may limit the use of water fund revenues to water fund purposes, net position in the government-wide statements should be classified as they are in the enterprise fund financial statements. Because the business-type activities reporting unit in government-wide statements does not have a “purpose,” per se, the issue of whether resources in an individual enterprise fund can only be used for a narrower purpose should not be considered. (See also Question .734-4 in this section.)

[GASBIG 2015-1, Q7.24.28]

.736735 ***Determining Legal Enforceability***

.736735-1 Q—A government, through the application of professional judgment, has always determined that it does not have legally enforceable restrictions on resource use imposed by enabling legislation. Should this government always conclude that limitations imposed by its own legislation are not legally enforceable and therefore do not constitute a restriction?

A—Prior determinations of nonenforceability should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable. The pattern of facts underlying a government’s prior determinations of nonenforceability may be relevant to future determinations. However, paragraph .158 of this section cautions that such determinations should be based on the facts and circumstances surrounding *each individual restriction*.

[GASBIG 2015-1, Q7.24.15]

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.737736 Changes in Circumstances Related to Enabling Legislation

~~.737~~736-1 Q—Generally, when permanent endowments are mentioned in this section and Section 2200, the discussion also includes term endowments. (See paragraphs ~~.142~~~~141~~, ~~.191~~, ~~.192~~, and ~~.197~~~~194~~ of Section 2200, for example.) However, paragraph .161 of this section states and paragraph ~~.123 of Section 2200~~ state that when permanent endowments or permanent fund principal amounts are included, the restricted component of net position should be displayed in two additional components—expendable and nonexpendable. Does this display requirement also apply to *term* endowments?

A—No. The objective of the requirement in paragraph .161 of this section ~~and paragraph .123 of Section 2200~~ is to identify net position that *cannot be spent*. Term endowments may “currently” be nonexpendable, but at some point in the future (when the term expires) they will become expendable. Thus, the requirement in those paragraphs applies only when the unavailability of net position is *permanent*.

[GASBIG 2015-1, Q7.24.6, as amended by GASBS XX, ¶129 and ¶130]

~~.737~~736-2 Q—A state government imposes a new (or incremental) tax through legislation that includes a legally enforceable restriction on the use of the resulting tax revenues. Five years later, the state legislature passes a new, equally enforceable law that again authorizes the tax but changes the purpose for which those tax revenues can be used. Are the components of net position generated by the tax under the new law restricted?

A—Yes, as long as the legislation establishing the new restriction qualifies as enabling legislation, as defined by paragraph .157 of this section. The components of net position resulting from taxes raised under the new law are restricted for the new purpose from that period forward. Professional judgment should be used to determine if the components of net position resulting from taxes raised under the initial enabling legislation should remain restricted for the original purpose, or should henceforth be reported as restricted to the new purpose specified in the new legislation, or unrestricted.

Paragraph 327 of the Basis for Conclusions of Statement 34 emphasizes the *substance* of the legislation as the determining factor when considering whether components of net position are restricted. If resources are indeed restricted by virtue of a legally enforceable and binding action of the legislature, the substance is the same, regardless of whether the limitations were imposed in the initial enabling legislation or in subsequently enacted enabling legislation that replaces the original legislation. The substance is that

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resources are being held pursuant to legally enforceable, binding restrictions. Paragraph .157 of this section would consider those resources restricted.

In this illustration, the new enabling legislation does not restrict the use of previously unrestricted resources, nor does it simply “ earmark ” the original revenue source. In those instances, the accumulated resources would be *unrestricted* rather than *restricted*. (See also Question .734-8 in this section.) Rather, like the original legislation, the new legislation meets the criteria for being considered enabling legislation, including providing the authority to raise the revenue that is restricted. In this way, as noted in paragraph 24 of the Basis for Conclusions of Statement No. 46, *Net Assets Restricted by Enabling Legislation*, the new legislation replaces the original in its entirety, and the original enabling legislation is no longer in effect.

[GASBIG 2015-1, Q7.24.12]

.737~~736~~-3 Q—A government passes enabling legislation that creates a new (or incremental) tax and imposes a legally enforceable restriction on the use of the tax revenues. Subsequently, the government uses some of these new (or incremental) tax revenues for a purpose not specified by the enabling legislation. How should the net position generated by the tax be reported?

A—Paragraph .160 of this section states that when resources restricted by enabling legislation are used for a purpose other than those set forth by the legislation, the government should reevaluate the legal enforceability of the restrictions. If it determines, in its professional judgment, that the restrictions are no longer legally enforceable, then from that period forward the accumulated resources and the future resources generated by the tax should be reported as unrestricted.

If the government determines that the restriction continues to be legally enforceable, the restricted net position should not reflect any reduction related to the use of the restricted resources for purposes not specified by the enabling legislation. The entire amount of restricted resources used for nonspecified purposes should be deducted from unrestricted net position.

The restricted component of net position should be determined as specified in Question .734-7 in this section, beginning with the year-end amount of assets restricted to the purpose specified by the enabling legislation. The amount of restricted resources used for purposes not specified by the enabling legislation should be added back to the year-end restricted assets, and the sum should be reduced by reported claims against those assets. This will ensure that the use of restricted resources for purposes not specified by the enabling legislation

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will be reflected in the unrestricted component of net position rather than the restricted component of net position.

If *all* of the restricted resources were used for purposes not specified by the enabling legislation (in other words, no assets restricted to the purposes specified by the enabling legislation remain at year-end) and the restriction continues to be legally enforceable, the year-end amount of assets restricted to the purpose specified by the enabling legislation is zero, but the restricted component of net position still should be determined as specified in Question .734-7. Beginning with a zero balance of restricted assets, the amount of restricted resources used for purposes not specified is added back (in this instance, all of the restricted resources), and the sum is reduced by reported claims against those assets.

[GASBIG 2015-1, Q7.24.17]

~~.737~~~~736~~-4 Q—A government passes enabling legislation that levies an incremental sales tax and restricts the revenues to funding elementary and secondary education. Subsequently, the government uses some of the revenues for another purpose. The government reevaluates the legal enforceability of the restriction, as required by paragraph .160 of this section. Based on its professional judgment, the government determines that the restriction is not legally enforceable and reports the accumulated resources and all future resources generated by the tax as unrestricted from that period forward. Several years later, however, the government is sued, and the court orders the government to use the resources only for the purpose specified by the legislation. How should the net position be reported?

A—Unless the court order specifies which resources are restricted, the components of net position generated by the sales tax should be reported as restricted—and disclosed in the notes to the financial statements as restricted by enabling legislation—beginning in the period during which the court judgment was rendered.

Paragraph .158 of this section cautions that legal enforceability cannot ultimately be proven unless tested through the judicial process. Until such time, professional judgment relies on available evidence. At the time the government used the tax revenues for nonspecified purposes, there may have been no reason to believe that an outside party could compel the government to honor the restriction imposed by the enabling legislation; in fact, there may have been no prior instances in which a court compelled the government or similar governments.

[GASBIG 2015-1, Q7.24.20]

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.737736-5 Q—A donor makes a donation of \$1 million to a governmental entity with the condition that the government match the donation to create a permanent fund in which the combined \$2 million would serve as the nonexpendable corpus. Provided that revenue recognition criteria pertaining to the donation have been met, would both the donation and the government's \$1 million match be reported as restricted net position?

A—Yes. The government voluntarily matches the \$1 million donation in order to obtain the donation. Ordinarily, a voluntary limitation would not result in restricted net position. However, once the government obtains the donation, its own \$1 million match becomes bound by the restriction imposed by the donor. Were the government to spend any portion of its matching amount, the terms of the donation would be violated and the government would have to return the money it received from the donor. Therefore, the entire \$2 million corpus of the permanent fund would be reported as restricted net position.

[GASBIG 2015-1, Q7.24.26]

.737736-6 Q—A state university's donor agreement addresses the disposition of earnings on permanent endowments. The agreement allows the university to either spend the earnings or reinvest a portion, and if reinvested, the reinvested amount becomes part of the permanent endowment, subject to the same restrictions as the original corpus. How should net position associated with the reinvested earnings be classified in the university's statement of net position?

A—The net position associated with the reinvested earnings should be included in the calculation of nonexpendable restricted net position. The donor has given the university's administration the power to reinvest a portion of the earnings and after that event has occurred, the dollars so reinvested become restricted and the decision to reinvest cannot be reversed.

[GASBIG 2015-1, Q7.24.27]

.737736-7 Q—A local benefactor has made a \$5 million donation to the community college. According to the terms of the bequest, the principal of the gift is required to remain intact and the earnings are required to be used for improvements to the college's fine arts center. At the end of the current fiscal year, the fair value of the endowment has dropped to \$4.85 million. Because the original amount is nonexpendable, should the college report restricted nonexpendable net position of \$5 million or \$4.85 million? If the market recovers in the following year and the endowment value increases to

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\$5.15 million, what amounts are reported in the restricted nonexpendable component of net position and restricted expendable component of net position?

A—In the current year, restricted nonexpendable net position should be reported at \$4.85 million. Restricted net position should represent the reported amount of restricted assets reduced by liabilities related to those assets. (See Questions .734-6 and .734-9 in this section and nonauthoritative paragraph .903 of this section.) In this example, the restricted assets reported in the statement of net position are \$4.85 million as a result of the investment loss.

If the market recovers in the following year and the endowment value increases to \$5.15 million, the community college would restore the restricted nonexpendable component of net position to \$5 million and increase the restricted expendable component of net position by \$150,000.

[GASBIG 2015-1, Q7.24.29]

.737-8 Q—How should an institution report a permanent endowment that was established with an original gift of \$1 million, with the earnings restricted for a specific purpose, that has a fair value of \$1.2 million at the end of the fiscal year? If the market subsequently declines in fair value to \$950,000, what amount should be reported in the restricted nonexpendable component of net position and how is the \$250,000 market decline recorded?

A—The \$1 million will be reported as a restricted nonexpendable component of net position and \$200,000 as restricted expendable net position. If the \$1.2 million gift subsequently declines in fair value to \$950,000, the \$250,000 decline in value is recorded as a \$200,000 reduction in the restricted expendable component of net position and a \$50,000 reduction in the restricted nonexpendable component of net position (consistent with the guidance in Question .736-7 in this section) for a final value of \$950,000 in the restricted nonexpendable component of net position.

[GASBIG 2015-1, Q7.24.30]

.738-737 Unrestricted Component of Net Position

.738-1 Q—Should unrestricted net position reported in an enterprise fund be reclassified as restricted net position of business-type activities in the government-wide statements because the scope of business-type activities is broader than the single purpose of an individual enterprise fund? For example, should unrestricted net position of a water utility fund be considered “restricted to

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water utility operations” when that fund is combined with other funds to comprise business-type activities in the government-wide statements?

A—No. Even though a statute, ordinance, or rate-payer agreement may limit the use of water fund revenues to water fund purposes, net position in the government-wide statements should be classified as they are in the enterprise fund financial statements. Because the business-type activities reporting unit in government-wide statements does not have a “purpose,” per se, the issue of whether resources in an individual enterprise fund can only be used for a narrower purpose should not be considered. (See also Question .734-4 in this section.)

[GASBIG 2015-1, Q7.24.28]

.738~~737~~-2 Q—Are there specific criteria that should be considered in determining whether net position is unrestricted?

A—No. Unrestricted net position is the “residual” component of net position. It consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

[GASBIG 2015-1, Q7.25.2]

.739~~738~~ Reporting Restrictions in Proprietary Funds

No questions assigned.

.740~~739~~ Governmental Fund Reporting

No questions assigned.

.741~~740~~ Fund Balance Reporting

.741~~740~~-1 Q—How should an employer that provides OPEB through a plan that is not administered through a trust (or equivalent arrangement) that meets the criteria in paragraph .101 of Section P50, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit,” Section P51, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Contribution,” Section P52, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Benefit,” or Section P54, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Contribution,”

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and that identifies a portion of the fund balance of one of its governmental funds as held for OPEB purposes report those resources?

A—The employer should report the portion of the governmental fund balance identified for OPEB as restricted, committed, or assigned, as appropriate, to OPEB.

[GASBIG 2017-3, Q4.347]

.742-741 *Nonspendable Fund Balance*

.742-741-1 Q—Are governments required to report interfund loan balances in two categories—“due to/from other funds” for the short-term amounts and “advances to/from other funds” for the amounts that will be repaid over several years?

A—No. Although governments may classify interfund balances as such, they are not required to do so. Paragraph .102 of this section only requires “interfund receivables” and “interfund payables” to be reported. Governments are required, however, to report nonspendable fund balance for the noncurrent portion of interfund receivables to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. (See Question .702-8 in this section about reclassifying interfund loan balances.)

[GASBIG 2015-1, Q7.62.2]

~~.741-2 Q—Paragraph .166 of this section states that long-term receivables and property held for resale should not be included in the calculation of nonspendable fund balance if the proceeds from their collection or sale are restricted, committed, or assigned. Does that provision also apply to other nonspendable items such as inventories and prepaid amounts?~~

~~A—Generally, no. Inventories and prepaid amounts reported in governmental funds are examples of nonspendable items that are not expected to be converted to cash, so it is expected that there would not be any restricted, committed, or assigned collections or sale proceeds associated with inventories or prepaid amounts.~~

~~[GASBIG 2015-1, QZ.54.2], superseded by GASBS XX, ¶12~~

.742-2741-3 Q—Should the portion of fund balance that is attributable to unrealized gains be included in nonspendable fund balance?

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A—No. The unrealized gain attributable to a specific investment should be included in the same fund balance classification as the investment principal. The ability to “spend” unrealized gains generally is the same as the ability to spend the principal of the fair-valued investment. Paragraph 57 in the Basis for Conclusions of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, states that governmental fund investments—and changes in the fair value of those investments—are appropriately available and thus merit recognition in governmental fund financial statements. (See Question .704-22 in Section 1300 about spendable appreciation of principal of permanent fund investments.)

[GASBIG 2015-1, QZ.54.3]

~~.741-4 Q—Paragraph .166 of this section provides that the long-term amount of loans and notes receivable should be included in nonspendable fund balance unless the proceeds from their collection are restricted, committed, or assigned. Does that provision apply to interfund balances?~~

~~A—Yes. However, as a practical matter it will only apply to interfund receivables in the general fund because all loans and notes receivable reported in other governmental funds, by definition, are restricted, committed, or assigned.~~

~~[GASBIG 2015-1, QZ.54.4], superseded by GASBS XX, ¶12~~

~~.742-3741-5 Q—Paragraph .166 of this section states that if the proceeds from the collection of long-term interfund loans receivable ~~receivables or the sale of properties held for resale~~ are restricted, committed, or assigned, they should be included in those classifications rather than nonspendable fund balance. How should the provision in paragraph .179 of this section that requires nonspendable fund balance to be determined *before* classifying amounts as restricted, committed, or assigned be considered in light of the guidance in paragraph .166?~~

~~A—Governments should first determine which amounts meet the nonspendable criteria in paragraph .166 and then whether any of the qualifying items should be reclassified to restricted, committed, or assigned classifications based on the guidance provided in that paragraph.~~

~~[GASBIG 2015-1, QZ.54.5, as amended by GASBS XX, ¶12]~~

~~.741-6 Q—Paragraph .166 of this section states that the long-term portion of notes receivable should be included in nonspendable fund balance unless the use of the proceeds from the collection of those receivables is restricted, com-~~

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~~mitted, or assigned. Should amounts related to the long-term portion of notes receivable from revenue transactions that have not been recognized revenue be included in fund balance?~~

~~A—No. As discussed in paragraph .118 of Section S40, because amounts related to the long-term portion of notes receivable from revenue transactions that have not been recognized as revenue are not available, those amounts should be reported as a deferred inflow of resources and not included in fund balance. The amount that should be reported in fund balance related to the long-term portion of notes receivable is the amount, if any, of the long-term portion of notes receivable, reduced the amount of the related deferred inflow of resources.~~

~~[GASBIG 2019-1, Q4.11], superseded by GASBS XX, ¶12~~

~~.741-7 Q—If a governmental fund reports an inventory balance for items that will be sold, rather than used in providing services, should the fund balance pertaining to that inventory be classified as nonspendable?~~

~~A—Fund balance related to inventory should be classified as nonspendable, because the resources are not in a spendable form, unless the proceeds from the sales are restricted, committed, or assigned. Fund balance representing inventory balances held for sale should not be reclassified from the nonspendable category, if the proceeds from sales are expected to be unassigned.~~

~~[GASBIG 2015-1, QZ.54.46], superseded by GASBS XX, ¶12~~

~~.741-8 Q—If a portion of the corpus of a permanent fund is required to be used to make loans, should that portion of fund balance be classified as nonspendable, or restricted, because the proceeds from collections are restricted to the making of new loans?~~

~~A—Fund balance should be classified as nonspendable. The primary determinant for classification is that the corpus cannot be “spent.” Making a loan, in this example, is not considered “spending” for financial reporting purposes.~~

~~[GASBIG 2015-1, QZ.54.48], superseded by GASBS XX, ¶12~~

.743-742 *Restricted Fund Balance*

~~.743742-1 Q—A government is awarded a transportation study grant with the condition that it is required to provide a 20 percent match of the grant award. The government receives the grant proceeds and deposits them in a separate special resources fund.~~

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~~special revenue fund.~~—The government's matching amount is transferred in from the general fund. How should the amount transferred in be classified?

A—The government's 20 percent match, regardless of whether it is transferred to the special ~~resources revenue~~ fund or retained in the general fund, becomes bound by the same constraints imposed by the grantor agency on the award. Therefore, in this example, both the grant proceeds and the government's matching amount would be classified as restricted fund balance.

[GASBIG 2015-1, QZ.54.8, as amended by GASBS XX, ¶128]

~~.743742-2~~ Q—A special ~~resources revenue~~ fund is used to account for the proceeds and use of federal grant money that is restricted to specified purposes. Does the interest earned on the investment of those resources also constitute ~~a restricted~~ inflows of short-term financial resources revenue source?

A—If the grant agreement requires that interest earned on invested grant proceeds can be used only for the same purposes as the grant award, the interest should be considered ~~a restricted~~ inflows of short-term financial resources revenue source. If the grant agreement does not include such a provision, then the interest earned, if retained in the fund, should be classified as *assigned* to the purpose of the fund.

[GASBIG 2015-1, QZ.54.9, as amended by GASBS XX, ¶122 and ¶128]

~~.743742-3~~ Q—Should the amount reported in governmental funds as restricted fund balance equal the amount reported as restricted net position for governmental activities in the government-wide statement of net position?

A—There are three reasons why those amounts will generally be different. First, the principal amount of a permanent fund is classified as nonspendable fund balance in the governmental fund financial statements but is included in restricted net position in the government-wide statement of net position. Second, reconciling items that represent measurement focus basis of accounting differences may cause the amounts to be different. And, finally, internal service fund net position is generally included with governmental activities.

[GASBIG 2015-1, QZ.54.10, as amended by GASBS XX, ¶12]

~~.743742-4~~ Q—A county government accounts for the proceeds of a federal grant in a capital projects fund. The grant proceeds are restricted to highway construction, and no other resources are accounted for in that fund. The board of supervisors takes the required highest level action to commit a portion of the resources in the fund to a specific construction project. How should the amount committed to that project be classified?

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A—The entire fund balance should be classified as restricted because it arises from the proceeds of a restricted grant. To classify a portion as committed understates the constraint imposed on the use of those resources by the grant agreement.

[GASBIG 2015-1, QZ.54.55]

.743.742-5 Q—A county government maintains a special ~~resources revenue~~ fund to account for restricted grant proceeds. At year end there is \$45,000 cash in the fund, but the county has issued purchase orders encumbering \$50,000, based on the expectation of receiving inflows of short-term financial resources from grants~~grant revenues~~ that are not yet recognized as receivable. How should the county classify the fund balance in that special ~~resources revenue~~ fund?

A—The county should report restricted fund balance of \$45,000 (rather than \$50,000 as restricted and \$5,000 as a deficit in unassigned). The amount reported as restricted fund balance should not exceed the restricted assets in a fund.

[GASBIG 2015-1, QZ.54.59, as amended by GASBS XX, ¶22 and ¶28]

.743.742-6 Q—A special ~~resources revenue~~ fund is used by a local government to account for an inflow of short-term financial resources~~a revenue~~ that is restricted by state statute to be spent for a specific purpose. At year end, the entire fund balance is classified as restricted. Next year's budget projects an excess of budgetary outflow~~expenditures~~ over budgetary inflows~~revenues~~, causing the government to include a portion of existing fund balance as a budgetary resource. Should the amount necessary to balance the budget be classified as assigned?

A—No. The amount necessary to balance the budget is already classified as restricted to the purpose for which it is appropriated in the budget. Classifying a portion as *assigned* understates the restriction on the use of the resources. Paragraph .176 of this section provides that appropriating existing fund balance to remedy a budgetary imbalance "satisfies the criteria" to be classified as an assignment; however, that classification would only apply if the amount necessary to balance is expected to come from unassigned fund balance.

[GASBIG 2015-1, QZ.54.60, as amended by GASBS XX, ¶22, ¶27, and ¶28]

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.744743 Committed Fund Balance

.744743-1 Q—Paragraph .170 of this section states that committed fund balance should include resources that have been specifically committed for use in satisfying contractual obligations. Under what circumstances is that expected to occur?

A—The agreement between a government and a counterparty (a lease agreement or out-of-court settlement award, for example) sufficiently binds the government to spending for a specific purpose and therefore constitutes the commitment. Often, scheduled payments to liquidate or reduce those contractual obligations are included in a government's budget and are expected to be paid from current-period inflows of short-term financial resources. ~~revenues~~. Fund balance should be classified as committed only if the government commits existing resources, rather than future ~~resources~~ revenues, to satisfy the contractual obligation (to the extent that the obligation is not recognized as a fund liability).

[GASBIG 2015-1, QZ.54.11, as amended by GASBS 87, ¶20 and GASBS XX, ¶22]

.744743-2 Q—Paragraph .172 of this section requires that the formal action to commit an amount to a specific purpose should occur prior to the end of the reporting period. Does a similar provision apply to the action taken to assign fund balance amounts?

A—No. The determination of the purposes, as well as the amounts for assigned fund balances can be made after the end of the reporting period.

[GASBIG 2015-1, QZ.54.15]

.744743-3 Q—A city council has the ability to impose constraints on the use of resources by taking any of three formal actions. It can pass ordinances, resolutions, and take “other” council actions. Because the city council is the highest level of decision-making authority in this example, do all of those actions constitute commitments?

A—Only the action that constitutes the most binding constraint should be considered a commitment for fund balance classification purposes. The most binding constraint is that which presents the greatest limitation on redeployment of those resources for other purposes. For example, if an ordinance becomes part of the city code and resolutions confirm and memorialize council decisions, the ordinance represents the most binding action that can be taken to impose spending constraints and therefore would give rise to committed fund balance.

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However, if an ordinance only differs from a resolution by the process through which it is passed or the form in which it is memorialized, and the extent to which they bind the government is essentially the same, then both forms of decision-making authority are equally binding and meet the criteria to establish a fund balance commitment.

[GASBIG 2015-1, QZ.54.51]

.744743-4 Q—The county board of supervisors, the highest level of decision-making authority for the county, passes resolutions to commit estimated amounts to long-term construction projects. The resolution, also the highest form of decision-making authority, commits the amount as the maximum and acknowledges that unneeded resources at the end of the project will be returned to the general fund or transferred to other construction projects. Should the initial amount set forth in the resolution be classified as committed fund balance? How should the residual balance be classified?

A—The preconstruction estimated amount should be classified as committed fund balance. The resolution also “un-commits” any unneeded residual balance at the end of the project, so no additional action is required to be taken by the county board of supervisors.

If the capital project is completed and the residual resources in the capital projects fund are to be returned to the general fund, the capital projects fund should recognize the amount as due to the general fund. If the construction project is accounted for in the general fund, the residual amount would be reclassified as unassigned. If the residual amount is to be used for another capital project, the initial resolution has already committed that amount and no reclassification or additional board action is needed—the resources remain committed to capital projects.

[GASBIG 2015-1, QZ.54.52]

.744743-5 Q—A county board has resolved to set aside a portion of fund balance in the general fund for the specific purpose of paying for budgetary outflows~~appropriated expenditures~~ during the period at the beginning of the next fiscal year when budgeted inflows~~revenues~~ are normally not distributed to or collected by the county. The board resolution stipulates that the resources set aside “cannot be used for any other purposes.” Should that portion of fund balance be classified as committed?

A—No. *Purpose* refers to the objects of spending or usage, rather than circumstances. That is, purpose limitations establish what fund balance can be spent for, not the circumstances under which the resources can be spent. In this case, because the amount set aside can be spent for any appropriated purpose,

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the stipulation that those resources cannot be spent for any other purpose does not constitute a limitation and the resources should be included in the unassigned category. The arrangement in this example possesses the characteristic of a minimum fund balance policy, and if so, the county should make the disclosures required in paragraph .187 of this section.

[GASBIG 2015-1, QZ.54.63, as amended by GASBS XX, ¶127]

.745744 Assigned Fund Balance

~~.745744~~-1 Q—A government transfers an amount to a special resources ~~revenue~~ fund and in doing so assigns that amount to the purpose of the fund. If the resources are not spent at year-end, does that assignment carry over to the subsequent years?

A—Yes. The assignment is effective until the government commits or reassigns the resources to another purpose.

[GASBIG 2015-1, QZ.54.12, as amended by GASBS XX, ¶128]

~~.745744~~-2 Q—What effect does the legal adoption of budget and appropriation documents for the subsequent year have on fund balance classification?

A—An adopted appropriation ordinance, resolution, or similar legislation generally authorizes a government to spend budgeted resources ~~revenues and other financing sources~~ and, therefore, does not impose constraints on the use of existing resources. However, if a portion of existing fund balance is included as a budgetary resource in the subsequent year's budget to eliminate a projected excess of expected budgetary outflow ~~expenditures~~ over expected budgetary inflows ~~revenues~~, then that portion of fund balance (in an amount no greater than is necessary to eliminate the excess) should be classified as assigned. The amount should not be classified as committed because the governing body does not have to take formal action to remove or modify that specific use—the purpose assignment expires with the appropriation.

[GASBIG 2015-1, QZ.54.13, as amended by GASBS XX, ¶127]

~~.745744~~-3 Q—In the situation described in Question .744-2 in this section, does the assignment of existing fund balance to cover a projected budgetary deficit carry over to the following year?

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A—No. The assignment terminates at the effective date of the next period's budget.

[GASBIG 2015-1, QZ.54.14]

.745744-4 Q—A city council has adopted a plan to reduce the city's fund balance over the next five years to a specified level by raising less ~~resources~~~~revenue~~ than is required to cover appropriations. The plan is to reduce fund balance by two million dollars in each of the next three years and by one million in the fourth and fifth years. Should the city classify the entire eight million as assigned fund balance?

A—No. The city would classify as assigned, each year, an amount not greater than the projected excess of ~~budgetary outflow~~~~expenditures~~ over expected ~~budgetary inflows~~~~revenues~~ for that year. (See also Question .744-3 in this section.)

[GASBIG 2015-1, QZ.54.54, as amended by GASBS XX, ¶27]

.745744-5 Q—A local government generally budgets ~~inflows~~~~revenues~~ on expected cash receipts and budgets appropriations on expected cash disbursements. The general fund includes an asset for taxes receivable and a liability for accrued salaries. Therefore, those budgeted receipts and disbursements for next year are already factored into the calculation of fund balance at the end of the current year. The budget for the next year reflects an excess of appropriations over ~~budgetary inflows of resources~~~~revenues~~, and the government has appropriated a portion of fund balance to eliminate the excess. This appropriated portion to balance the budget is classified as assigned fund balance in the current year. Is the government required to further adjust the amount of fund balance assigned for the budgeted receipts and disbursements that are already reflected in fund balance?

A—No. An adjustment for basis of accounting differences is not required. The provision in paragraph .176 of this section states that the assignment should be "in an amount no greater than the projected excess of ~~budgetary outflow~~~~expected expenditures~~ over ~~budgetary inflow~~~~expected revenues~~."

[GASBIG 2015-1, QZ.54.56, as amended by GASBS XX, ¶27]

.745744-6 Q—A special ~~resources~~~~revenue~~ fund is used by a local government to account for ~~an inflow of short-term financial resources~~~~a revenue~~ that is restricted by state statute to be spent for a specific purpose. At year end, the entire fund balance is classified as restricted. Next year's budget projects an excess of ~~budgetary outflow~~~~expenditures~~ over ~~budgetary inflows~~~~revenues~~, causing the government to include a portion of existing fund balance as a budgetary resource. Should the amount necessary to balance the budget be classified as assigned?

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A—No. The amount necessary to balance the budget is already classified as restricted to the purpose for which it is appropriated in the budget. Classifying a portion as *assigned* understates the restriction on the use of the resources. Paragraph .176 of this section provides that appropriating existing fund balance to remedy a budgetary imbalance “satisfies the criteria” to be classified as an assignment; however, that classification would only apply if the amount necessary to balance is expected to come from unassigned fund balance.

[GASBIG 2015-1, QZ.54.60, as amended by GASBS XX, ¶22, ¶27, and ¶28]

~~.745-744~~-7 Q—Can the general fund report a deficit in unassigned fund balance if there are assigned fund balances in other governmental funds?

A—Yes. Each fund stands on its own for purposes of fund balance classifications. The focus of the fund balance classifications is on resources within a fund. The provision in paragraph .176 of this section that states that assignments should not cause a deficit in unassigned fund balance to occur is limited to assignments made within the same fund.

[GASBIG 2015-1, QZ.54.62]

~~.746~~745 *Unassigned Fund Balance*

~~.746~~745-1 Q—Can the general fund report a deficit in unassigned fund balance if there are assigned fund balances in other governmental funds?

A—Yes. Each fund stands on its own for purposes of fund balance classifications. The focus of the fund balance classifications is on resources within a fund. The provision in paragraph .176 of this section that states that assignments should not cause a deficit in unassigned fund balance to occur is limited to assignments made within the same fund.

[GASBIG 2015-1, QZ.54.62]

~~.747~~746 *Classifying Fund Balance Amounts*

See paragraph .734 of this section for questions discussing restricted net position.

~~.747~~746-1 Q—Is a government required to report an amount for all the fund balance classifications?

A—No. Governments should report amounts as committed or assigned only if they have procedures to constrain the use of resources that satisfy the criteria for those classifications. Some special-purpose governments,

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for example, may not have the ability to commit resources, and other governments may not have policies that are consistent with the assignment criteria. Other governments may have procedures that constitute assignment of resources but have not taken action to assign any resources. Accordingly, the classifications that a government reports and the policies that are in place will depend on the specific circumstances for the government.

[GASBIG 2015-1, QZ.54.7]

~~.747-2 Q—Outflows of short-term financial resources.~~~~746-2 Q—Expenditures~~ have been made in a capital projects fund from resources advanced from the general fund in anticipation of bond proceeds that will be restricted to the purpose for which those outflows of short-term financial resources~~expenditures~~ have been made. Should the capital projects fund report negative restricted fund balance?

A—No. Paragraph .179 of this section provides that a negative balance should not be reported for restricted, committed, or assigned fund balance in any fund. In this example, the capital projects fund should report a negative unassigned fund balance.

[GASBIG 2015-1, QZ.54.16, as amended by GASBS XX, ¶23]

~~.747~~~~746-3 Q—Is the answer to Question .746-2 in this section different if the~~ capital projects fund also includes resources that are committed and assigned to other purposes?

A—Yes. The negative amount should first reduce assigned fund balances in that fund until they are completely eliminated. The amount of the negative balance that exceeds assigned fund balances should be reported as a negative unassigned fund balance. Committed fund balances should not be reduced by outflows of short-term financial resources exceeding resources that are committed or assigned~~to overexpenditure~~ for other purposes in that fund.

[GASBIG 2015-1, QZ.54.17, as amended by GASBS XX, ¶23]

~~.746-4 Q—At year end, a special revenue fund that is used to account for specific restricted revenues includes \$200 in cash, inventory of \$110, and a balance due to the general fund of \$275. How should its total fund balance of \$35 be classified?~~

A—~~The fund should report nonspendable fund balance of \$110 and an unassigned fund balance deficit of \$75. Overexpenditure for a restricted, committed, or assigned purpose should not reduce nonspendable fund bal-~~

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~~ance. However, if the resources received from selling the inventory also were restricted, the total fund balance would be classified as restricted.~~

~~[GASBIG 2015-1, QZ.54.18], superseded by GASBS XX, ¶12~~

~~.747-4.746-5~~ Q—Paragraph .178 of this section provides guidance for governments that do not establish a policy for their use of unrestricted fund balance amounts. How should that provision be applied to determine the balances in the unrestricted fund balance classifications?

A—The guidance in paragraph .178 provides that in situations where governments have not established a spending policy, the committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when outflows of short-term financial resources~~expenditures~~ are incurred for purposes for which amounts in any of those classifications could be used. To determine the ending balances in each classification, the government should start with the balances that were committed and assigned at the beginning of the year, add amounts in the fund that have been committed or assigned during the year, then subtract outflows of short-term financial resources~~expenditures~~ made for the specific committed or assigned purposes. To illustrate, consider the following example of a special resources~~revenue~~ fund whose policy is to use restricted resources before unrestricted and adopts the default policy for the use of its unrestricted resources. The fund includes amounts that have been restricted, committed, or assigned to three specific purposes. See nonauthoritative paragraph .901 of this section.

~~[GASBIG 2015-1, QZ.54.19, as amended by GASBS XX, ¶123 and ¶128]~~

~~.747-5.746-6~~ Q—How should unassigned fund balance of the general fund of a blended component unit be classified when it is reported as a special resources~~revenue~~ fund of the primary government?

A—Unassigned fund balance of the general fund of a blended component unit should be reclassified as assigned, committed, or restricted based on the process through which those resources of the component unit could be used for other purposes of the primary government. For example, if the resources of the component unit are restricted to the purposes of the component unit, those resources may be classified as unassigned in the context of the stand-alone financial statement of the component unit but would be considered restricted from the perspective of the primary government.

~~[GASBIG 2015-1, QZ.54.50, as amended by GASBS XX, ¶128 and GASBIG 2016-1, Q5.41]~~

~~.747-6.746-7~~ Q—A county government accounts for the proceeds of a federal grant in a capital projects fund. The grant proceeds are restricted to highway construction, and no other resources are accounted for in that fund. The

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board of supervisors takes the required highest level action to commit a portion of the resources in the fund to a specific construction project. How should the amount committed to that project be classified?

A—The entire fund balance should be classified as restricted because it arises from the proceeds of a restricted grant. To classify a portion as committed understates the constraint imposed on the use of those resources by the grant agreement.

[GASBIG 2015-1, QZ.54.55]

~~.747-7746-8~~ Q—State statute allows local governments to issue bonds, the proceeds of which will be used to provide “working capital.” The authorizing statute states that the proceeds may be loaned to other funds “to meet the demands for ordinary and necessary outflows of resources expenditures for all general and special purposes.” The local government is further authorized to levy a separate dedicated property tax in an amount necessary to pay the principal and interest on the bonds as they come due. The statutes also provide that the local government “may abolish its working cash fund by resolution and may transfer any balance remaining in the fund, including any interest that may have accrued, to the general fund.” How should the government report the transactions and resulting fund balances?

A—The proceeds from the bonds should be included in unassigned fund balance of the general fund. Because the proceeds can only be *loaned* to other funds and may be used for any purpose, they do not represent restricted resources, and because they are not inflows of short-term financial resources from current activities other than transfersrevenues, they cannot provide the foundation for a special resourcesrevenue fund. Even though the amounts loaned to other funds are required to be repaid by those funds, the working capital resources (the remaining bond proceeds reported in the general fund) should not be classified as nonspendable because the government has the ability to unilaterally abolish the fund and spend the resources out of the general fund for any purpose. The tax inflows of short-term financial resourcesrevenues from the dedicated levy are restricted for debt service because the authorizing statute limits the use of the inflowsrevenues to principal and interest payments on the working capital bonds. ~~(See also Question .741-4 in this section about classification of interfund balances.)~~

[GASBIG 2015-1, QZ.54.57, as amended by GASBS XX, ¶12, ¶22, ¶23, and ¶28]

~~.747-8 746-9~~ Q—A county government maintains a special resourcesrevenue fund to account for restricted grant proceeds. At year end there is \$45,000 cash in the fund, but the county has issued purchase orders encumbering \$50,000, based on the

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expectation of receiving inflows of short-term financial resources from grants that are not yet recognized as receivable. How should the county classify the fund balance in that special resources revenue fund?

A—The county should report restricted fund balance of \$45,000 (rather than \$50,000 as restricted and \$5,000 as a deficit in unassigned). The amount reported as restricted fund balance should not exceed the restricted assets in a fund.

[GASBIG 2015-1, QZ.54.59, as amended by GASBS XX, ¶122 and ¶128]

.747-9 746-10 Q—A special resources revenue fund is used by a local government to account for an inflow of short-term financial resources that is restricted by state statute to be spent for a specific purpose. At year end, the entire fund balance is classified as restricted. Next year's budget projects an excess of budgetary outflow expenditures over budgetary inflows revenues, causing the government to include a portion of existing fund balance as a budgetary resource. Should the amount necessary to balance the budget be classified as assigned?

A—No. The amount necessary to balance the budget is already classified as restricted to the purpose for which it is appropriated in the budget. Classifying a portion as *assigned* understates the restriction on the use of the resources. Paragraph .176 of this section provides that appropriating existing fund balance to remedy a budgetary imbalance “satisfies the criteria” to be classified as an assignment; however, that classification would only apply if the amount necessary to balance is expected to come from unassigned fund balance.

[GASBIG 2015-1, QZ.54.60, as amended by GASBS XX, ¶122, ¶127 and ¶128]

.748747 *Stabilization Arrangements*

.748747-1 Q—What is the difference between a stabilization arrangement and a minimum fund balance policy?

A—For financial reporting purposes, resources set aside under a stabilization arrangement may be used expended only when certain specific circumstances or conditions exist that are not expected to occur routinely. A minimum fund balance policy generally does not stipulate the conditions under which fund balance may fall below the minimum but, rather, establishes a target amount that the government believes should be maintained to provide a reasonable level of assurance that day-to-day operations can continue if inflows of short-term financial resources revenues are insufficient to cover outflows of short-term financial resources expenditures.

[GASBIG 2015-1, QZ.54.23, as amended by GASBS XX, ¶122, ¶123, and ¶127]

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.748747-2 Q—How specific are the circumstances for use of stabilization resources required to be, in order for those resources to be classified as committed fund balance?

A—The required level of specificity is intended to convey the understanding that the resources would be available only under specific circumstances that are not expected to occur routinely. For example, a condition that stabilization resources become available for spending if inflows of short-term financial resources ~~revenues~~ fall one percent below expectations is sufficiently specific but does not meet the requirement that the condition is not expected to occur routinely. In that situation, the amount set aside should not be classified as committed fund balance; however, the government would be required to provide the disclosures described in paragraph .186 of this section.

[GASBIG 2015-1, QZ.54.24, as amended by GASBS XX, ¶122]

.748747-3 Q—State law requires local governments to maintain fund balance at a level equal to at least eight percent of the general fund appropriations in the preceding year to provide for contingencies. Does that requirement constitute a stabilization arrangement for purposes of classifying fund balance? If not, do the minimum fund balance disclosure requirements in paragraph .187 of this section apply?

A—The statutory requirement in this case does not constitute a stabilization arrangement because it does not identify specific conditions under which the resources that represent the minimum balance can be used. The minimum fund balance disclosure requirements do not apply because the requirement is imposed upon the government rather than established by the government itself. The government may, however, be required to disclose instances of noncompliance with the legal requirement.

[GASBIG 2015-1, QZ.54.25]

.749748 *Displaying Fund Balance Classifications on the Face of the Short-Term Financial Resources Balance Sheets*

.749748-1 Q—Paragraphs .182 and .185 of this section require that amounts for the two components of nonspendable fund balance—interfund loans receivable ~~those that are not in spendable form~~ and those that are contractually or legally required to be maintained intact—either be displayed on the face of the statement or disclosed in the notes. Are those components required to be separately classified as “interfund loans receivable ~~resources not in spendable form~~” and “resources contractually and legally required to be maintained intact”?

A—No. It is not necessary to separately classify the components using the descriptions in this section as long as amounts for the two

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components are discernable. For example, rather than presenting “Resources not in spendable form,” governments could instead label that amount as “Long-term portion of interfund loans, inventories, and prepaid amounts.”

[GASBIG 2015-1, QZ.54.6, as amended by GASBS XX, ¶12 and ¶26]

.749-748-2 Q—A government chooses to disclose in the notes, rather than display on the face of the financial statements, the fund balance classification details required by paragraph .182 of this section. Can the disclosure present aggregated amounts for total governmental funds?

A—No. The information disclosed in the notes should provide the same level of detail as would be displayed on the face of the financial statements. That is, the disclosure should provide information for the general fund, each major governmental fund, and the nonmajor funds in the aggregate.

[GASBIG 2015-1, QZ.54.61]

.750749 Fund Balance Disclosures

No questions assigned.

.751750 Fund Balance Classification Policies and Procedures

No questions assigned.

.752751 Reporting Encumbrances

.752751-1 Q—Should encumbrances be displayed on the face of the governmental funds short-term financial resources balance sheet?

A—No. Encumbrances should not be displayed on the face of the financial statements. Generally, encumbered amounts should already be included in the restricted, committed, and assigned fund balance classifications. (See Question .751-2 in this section.)

[GASBIG 2015-1, QZ.54.27, as amended by GASBS XX, ¶11]

.752751-2 Q—Can encumbrances be included in unassigned fund balance in the general fund?

A—No. Executing a purchase order is tantamount to assigning the amount of the purchase order to a specific purpose; thus, the outstanding

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encumbrance amount would be included in assigned fund balance (unless the purchase order relates to restricted or committed resources).

[GASBIG 2015-1, QZ.54.28]

.752751-3 Q—Does paragraph .184 of this section require disclosure of specific *individual* encumbrances by fund balance classification, if significant?

A—No. The requirement in paragraph .184 is to disclose the *total* amount of encumbrances by major fund and nonmajor funds in the aggregate, if significant. Disclosure of individual encumbrances is not required and classification of encumbered amounts as restricted, committed, or assigned also is not required.

[GASBIG 2015-1, QZ.54.47]

.752751-4 Q—A county government maintains a special resources revenue fund to account for restricted grant proceeds. At year end there is \$45,000 cash in the fund, but the county has issued purchase orders encumbering \$50,000, based on the expectation of receiving inflows of short-term financial resources from grants~~grant revenues~~ that are not yet recognized as receivable. How should the county classify the fund balance in that special resources revenue fund?

A—The county should report restricted fund balance of \$45,000 (rather than \$50,000 as restricted and \$5,000 as a deficit in unassigned). The amount reported as restricted fund balance should not exceed the restricted assets in a fund.

[GASBIG 2015-1, QZ.54.59, as amended by GASBS XX, ¶22 and ¶28]

.753752 *Details of Fund Balance Classifications Displayed in the Aggregate*

No questions assigned.

.754753 *Stabilization Arrangements*

No questions assigned.

.755754 *Minimum Fund Balance Policies*

.755754-1 Q—What is the difference between a stabilization arrangement and a minimum fund balance policy?

A—For financial reporting purposes, resources set aside under a stabilization arrangement may be used~~expended~~ only when certain specific circumstances

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or conditions exist that are not expected to occur routinely. A minimum fund balance policy generally does not stipulate the conditions under which fund balance may fall below the minimum but, rather, establishes a target amount that the government believes should be maintained to provide a reasonable level of assurance that day-to-day operations can continue if inflows of short-term financial resources ~~revenues~~ are insufficient to cover outflows of short-term financial resources ~~expenditures~~.

[GASBIG 2015-1, QZ.54.23, as amended by GASBS XX, ¶122, ¶123, and ¶127]

~~.755~~**754-2** Q—State law requires local governments to maintain fund balance at a level equal to at least eight percent of the general fund appropriations in the preceding year to provide for contingencies. Does that requirement constitute a stabilization arrangement for purposes of classifying fund balance? If not, do the minimum fund balance disclosure requirements in paragraph .187 of this section apply?

A—The statutory requirement in this case does not constitute a stabilization arrangement because it does not identify specific conditions under which the resources that represent the minimum balance can be used. The minimum fund balance disclosure requirements do not apply because the requirement is imposed upon the government rather than established by the government itself. The government may, however, be required to disclose instances of noncompliance with the legal requirement.

[GASBIG 2015-1, QZ.54.25]

~~.755~~**754-3** Q—Are governments required to disclose reasons why fund balance may have decreased below the established minimum or what corrective measures will be taken to restore it to the minimum level?

A—No. Paragraph .187 of this section only requires note disclosure of the policy that sets forth the minimum amount. The government should consider whether to discuss those issues in management's discussion and analysis in the context of discussing significant changes in fund balances.

[GASBIG 2015-1, QZ.54.29]

~~.756~~**755 Terminology and Classification Consistency**

No questions assigned.

~~.757~~**756 Governmental Funds**

No questions assigned.

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AICPA LITERATURE CLEARED BY THE GASB

Interfund Borrowings

.801 When one fund has overdrawn its share of an internal investment pool, that fund should report an interfund liability to the fund that the government's management deems to have lent the amount to the overdrawn fund. The fund deemed to have lent the amount should report an interfund receivable from the borrowing fund. This treatment is unaffected by whether the lending and borrowing funds are of the same or different fund types or categories. However, in the [economic resources measurement focus and accrual basis of accounting] financial statements, those interfund accounts should be eliminated as required for internal balances by GASB Statement No. 34, [*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*,] paragraph 58. [AICPA SLG 2002, ¶5.26]

.802 If a cash account for the government is overdrawn in total, the balance should be classified as a liability in the [~~short-term~~current financial resources measurement focus and accrual basis of accounting] (like governmental fund-level financial statements) and economic resources measurement focus and accrual basis of accounting (like proprietary and fiduciary fund-level financial statements and government-wide financial statements)] financial statements. [AICPA SLG 2002, ¶5.26]

Reporting Negative Cash Balances in Custodial Funds

.803 Custodial funds may have negative cash balances because more cash has been paid out than received. The funds also may have incurred more liabilities than there are assets to pay them. [If the government has] a liability to cover the shortages with amounts from other funds, an interfund receivable [should be reported] in the custodial funds [for this amount]. [AICPA SLG 2002, ¶5.28, as amended by GASBS 84, ¶18]

Reporting Nonoperating Revenue

.804 Nonoperating revenues also generally should include revenues from appropriations between primary governments and their component units, contributions, grants, entitlements, and shared revenues for operating purposes or that may be used, at the recipient's discretion, for either operating purposes or capital outlay. [AICPA SLG 2002, ¶6.73 and ¶12.70]

DEFINING THE FINANCIAL REPORTING ENTITY SECTION 2100

Sources: GASBS 14, GASBS 34, GASBS 39, GASBS 61, GASBS 84, GASBS 90, GASBS 97, GASBTB 2004-1, GASBIG 2015-1, GASBIG 2016-1, GASBIG 2019-1, GASBIG 2019-2, GASBIG 2020-1

See also: Section 2200, “Comprehensive Annual Financial Report”
Section 2600, “Reporting Entity and Component Unit Presentation and Disclosure”
Section J50, “Accounting for Participation in Joint Ventures and Jointly Governed Organizations”

Scope of This Section

.101 This section establishes standards for defining the **financial reporting entity**.¹ The requirements of this section apply at all levels to all state and local governments. This section applies to financial reporting by **primary governments**, governmental **joint ventures**, **jointly governed organizations**, and **other stand-alone governments**; and it applies to the separately issued financial reports of governmental **component units**. This includes governmental enterprises, public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. In addition, this section should be applied to governmental and nongovernmental component units when included in a governmental financial reporting entity. Section 2600 provides guidance for reporting the financial data of the organizations that make up the financial reporting entity. Section 2200 provides guidance on the components of comprehensive annual financial reports, including basic financial statements. [GASBS 14, ¶1 and ¶9, as amended by GASBS 34, ¶6]

Background

.102 GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, states that “accountability is the cornerstone of all financial reporting in government” and “financial reporting plays a major role in fulfilling government’s duty to be publicly accountable in a democratic society” (paragraph 56). It follows that an accountability perspective should provide the basis for defining the financial reporting entity. Financial reporting based on accountability should enable the financial statement reader to focus on the body of organizations that are related by a common thread of accountability to the constituent citizenry. [GASBS 14, ¶2]

.103 The organizational structure of many governments has become increasingly complex. The demands placed on governments to provide services may outpace their legal, financial, or administrative ability to provide those services within the traditional framework of general purpose government. For this reason and others, many governments

¹Terms defined in paragraphs .501–.523 are shown in **boldface type** the first time they appear in this section. [GASBS 14, fn2]

have created separate organizations. Whatever the reason for creation of those “separate” organizations, comprehensive financial reporting from a public accountability perspective requires determining which of these organizations should be included as part of a financial reporting entity. [GASBS 14, ¶3]

.104 Sometimes separate organizations are created because it is believed that debt backed by the revenue-generating capacity of a specific facility will be better accepted in the capital markets or because of the perceived greater efficiency of a separate corporate-style structure. In a separate organization, governing board and management efforts can be focused on one specific function instead of the myriad services often overseen by the management of a general purpose government. [GASBS 14, ¶4]

.105 Some state statutes or municipal corporate charters may specify the services to be provided or the functions to be performed by an individual local government. Instead of revising the charter or changing the statutes when there is a need to provide additional services to citizens, some local governments take advantage of other legal provisions that enable them to create separate organizations to provide the additional services that may not have been envisioned when the charter or statute was written. [GASBS 14, ¶5]

.106 In some instances, separate organizations have been created to overcome constitutional or statutory limitations on the issuance of debt. For example, separate financing corporations have been created by some governments to issue debt on the government’s behalf that otherwise might not have been issued directly by the government because of limitations on the issuance of debt. [GASBS 14, ¶6]

.107 Many public authorities and special districts have a legal, financial, or administrative autonomy that departments and agencies may not have within the general government’s organizational framework. Legal autonomy derives from the organization’s corporate powers, including the ability to buy, sell, lease, and mortgage property in its own name and the power to sue and be sued without recourse to the state or municipality itself. Financial autonomy is manifested in an organization’s capacity to support itself from revenues generated from separate taxes, fees, and charges to the consumers of its goods or services. Administrative autonomy means freedom from some of the administrative controls over government programs and operations, such as civil service regulations and pay scales; central budgetary controls; regulations on contracting, purchasing, and rate setting; and the controls imposed by “pre-audits” often required of government agencies and departments. [GASBS 14, ¶7]

.108 Despite the outward appearance of autonomy, or separateness, these organizations customarily are administered by governing bodies that have been appointed by the elected officials of a primary government or by the primary government’s officials serving ex officio. A primary government’s officials are elected by the citizenry to serve as their representatives to promote the public health, safety, morals, education, general welfare, security, prosperity, and contentment of the citizens within its jurisdiction.

Thus, the elected officials are accountable to those citizens for their public policy decisions, regardless of whether those decisions are carried out directly by the elected officials through the operations of the primary government or by their designees through the operations of specially created organizations. This broad-based notion of accountability by elected officials leads to the underlying concept of the governmental financial reporting entity: Governmental organizations are responsible to elected governing officials at the federal, state, or local level; therefore, financial reporting by a state or local government should report the elected officials' accountability for those organizations. [GASBS 14, ¶8]

The Financial Reporting Entity Concept

.109 The concept underlying the definition of the financial reporting entity is that elected officials are **accountable** to their constituents for their actions. Because one of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of those elected officials, the definition of the financial reporting entity should be based on accountability. Because providing public services is, ultimately, the responsibility of elected officials, all governmental organizations are responsible to elected officials at the federal, state, or local level. Financial reporting by a state or local government should report the elected officials' accountability for those organizations. [GASBS 14, ¶10]

.110 The financial statements of the reporting entity should allow users to distinguish between the primary government and its component units by communicating information about the component units and their relationships with the primary government rather than creating the perception that the primary government and all of its component units are one legal entity. To accomplish this goal, the reporting entity's government-wide financial statements should display information about the reporting government as a whole, using separate rows and columns to distinguish between the total primary government and its **discretely presented** component units. The reporting entity's fund financial statements should present the primary government's governmental, proprietary, and fiduciary funds (including its **blended** component units, which are, in substance, part of the primary government), reporting major funds individually and nonmajor funds in the aggregate. Fiduciary component units should be reported only in the statements of fiduciary net position and changes in fiduciary net position with the primary government's fiduciary funds. [GASBS 14, ¶11, as amended by GASBS 34, ¶80 and ¶82 and GASBS 63, ¶8; GASBS 34, ¶6, ¶14, and ¶75; GASBS 34, ¶13 and ¶125, as amended by GASBS 63, ¶8 and GASBS 84, ¶5]

Definition of the Financial Reporting Entity

.111 As discussed in detail below, the financial reporting entity consists of the primary government and organizations for which the primary government is **financially accountable** (see paragraphs .120–.138). In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion

of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such circumstances, that organization should be included as a component unit (see paragraphs .140–.143). The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or an other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial reports. Although this section is written from the perspective of the primary government, its requirements apply to the separately issued basic financial statements of governmental component units, joint ventures, jointly governed organizations, and other stand-alone governments. These organizations should apply the provisions of this section as if they were a primary government. [GASBS 14, ¶12, as amended by GASBS 34, ¶6 and GASBS 61, ¶4; GASBS 87, ¶7, as amended by GASBS 97, ¶5; GASBS 90, ¶7; GASBS 97, ¶4]

Primary Governments

Definition of a Primary Government

.112 The foundation of a primary government is a separately elected governing body— one that is elected by the citizens in a general, popular election. As the nucleus of the financial reporting entity, the primary government generally is the focal point for the users of the financial statements. Thus, it is important to define the primary government and determine what it comprises. A primary government is any state government or general purpose local government (municipality or county). A primary government is also a special-purpose government (for example, a school district or a park district) that meets all of the following criteria:

- a. It has a separately elected governing body.
- b. It is **legally separate** (see paragraph .114).
- c. It is **fiscally independent** of other state and local governments (see paragraphs .115–.117).

[GASBS 14, ¶13]

.113 *A primary government consists of all the organizations that make up its legal entity.* All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government. If an organization is part of a primary government, its financial data should be included with the financial data of the primary government. [GASBS 14, ¶14]

Determining Separate Legal Standing

.114 An organization has separate legal standing if it is created as a body corporate or a body corporate and politic, or if it otherwise possesses the corporate powers that would distinguish it as being legally separate from the primary government. Generally, corporate powers give an organization the capacity to have a name; the right to sue

and be sued in its own name without recourse to a state or local governmental unit; and the right to buy, sell, lease, and mortgage property in its own name. The corporate powers granted to a separate organization are enumerated in its corporate charter or in the legislation authorizing its creation. A special-purpose government (or any other organization) that is *not* legally separate should be considered, for financial reporting purposes, part of the primary government that holds the corporate powers. [GASBS 14, ¶15]

Determining Fiscal Independence or Dependence

.115 A special-purpose government is fiscally independent if it has the ability to complete certain essential fiscal events without substantive approval by a primary government.² A special-purpose government is fiscally independent if it has the authority to do all three of the following:

- a. Determine its budget without another government's having the authority to approve and modify that budget.
- b. Levy taxes or set rates or charges without approval by another government.
- c. Issue bonded debt without approval by another government.

A special-purpose government that is not fiscally independent is **fiscally dependent** on the primary government that holds one or more of those powers. A special-purpose government may be fiscally dependent on another state or local government regardless of whether it receives *financial* assistance from that state or local government; fiscal dependency does not necessarily imply that a **financial benefit** or **burden** relationship exists. [GASBS 14, ¶16]

.116 In determining whether a special-purpose government is fiscally independent, a distinction should be made between substantive approvals and ministerial (or compliance) approvals. Special-purpose governments typically are subject to the general oversight of their respective state governments, and sometimes to the oversight of county or other local governments as well. Often, this general oversight responsibility includes an approval process that is more ministerial or compliance oriented than substantive. Examples of approvals that are likely to be ministerial or compliance oriented in nature rather than substantive are:

- a. A requirement for a state agency to approve local government debt after review for compliance with certain limitations, such as a debt margin calculation based on a percentage of assessed valuation.
- b. A requirement for a state agency, such as a department of education, to review a local government's budget in evaluating qualifications for state funding.

²There may be instances in which a primary government is temporarily placed under the fiscal control of another government; for example, a state may obtain direct, temporary fiscal oversight over a school district. A primary government that is temporarily under the fiscal control of another government continues to be fiscally independent for purposes of this section. [GASBS 14, fn3]

- c. A requirement for a county government official, such as the county clerk, to approve tax rates and levy amounts after review for compliance with tax rate and levy limitations.

[GASBS 14, ¶17]

.117 A special-purpose government subject to substantive approvals should not be considered a primary government for purposes of this section. For example, budgetary approval is substantive if a government has the authority to reduce or modify a special-purpose government's budget. On the other hand, a special-purpose government that is *statutorily prohibited* from incurring debt may be fiscally independent if it possesses the other two powers because the statutory prohibition does not subordinate the special-purpose government to another government for debt approval. It may be necessary to ascertain whether approvals or restrictions have the effect of impairing the special-purpose government's fiscal independence. [GASBS 14, ¶18]

Reporting the Primary Government

.118 The financial data of the primary government (and its blended component units as discussed in Section 2600, paragraphs .112–.114) should be reported in accordance with the provisions of Section 2200. This section does not modify fund reporting requirements referred to in that section. Regardless of entity considerations, a primary government should report its fiduciary funds according to Section 2200, paragraphs ~~.197–.200~~–.203~~0~~. [GASBS 14, ¶19, as amended by GASBS 35, ¶5 and GASBS 84, ¶5; GASBS 63, ¶7; GASBS 84, ¶20, ¶23, and ¶25; GASBS 84, ¶22 and ¶25, as amended by GASBS 92, ¶9]

Component Units

Definition of Component Units

.119 Component units are legally separate organizations³ for which the elected officials of the primary government are financially accountable (as discussed in paragraphs .120–.138). In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading (as discussed in paragraphs .140–.143). [GASBS 14, ¶20, as amended by GASBS 61, ¶4; GASBS 84, ¶7, as amended by GASBS 97, ¶5; GASBS 90, ¶7; GASBS 97, ¶4]

Financial Accountability

.120 Accountability flows from the notion that individuals are obliged to account for their acts, including the acts of the officials they **appoint** to operate governmental agencies. Thus, elected officials are accountable for an organization if they appoint a voting majority of the organization's governing board. Sometimes, however, appointments

³A component unit may be a governmental organization (except those that meet the definition of a primary government in paragraph .112), a nonprofit corporation, or a for-profit corporation. [GASBS 14, fn4; GASBS 61, ¶4]

are not substantive; other governments (usually at a lower level) may have oversight responsibility for those officials. This section uses the term *financial accountability*, rather than *accountability*, to describe the kind of relationship warranting the inclusion of a legally separate organization in the reporting entity of another government. The following circumstances set forth a primary government's financial accountability for a legally separate organization.

- a. The primary government is financially accountable⁴ if it appoints a voting majority of the organization's governing body⁵ and (1) it is able to **impose its will** on that organization (paragraphs .124–.125) or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government (paragraphs .126–.132).
- b. The primary government is financially accountable⁶ if an organization is fiscally dependent (paragraphs .115–.117) on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government (paragraphs .126–.132) regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board (paragraphs .133–.138).
- c. The primary government is financially accountable for a legally separate organization if the primary government's holding of a majority equity interest in that organization does not meet the definition of an investment (paragraph .137).

[GASBS 14, ¶21, as amended by GASBS 61, ¶16 and GASBS 90, ¶17; GASBS 84, ¶17, as amended by GASBS 97, ¶5; GASBS 90, ¶7]

Appointment of a Voting Majority

.121 If a primary government appoints a simple majority of the organization's governing board, it usually has a voting majority. However, if financial decisions require the approval of more than a simple majority, the primary government is not accountable for the organization. [GASBS 14, ¶22]

.122 For purposes of determining whether accountability exists, a primary government's appointment authority should be substantive. In some cases the appointment authority of a primary government's officials may be limited by a nomination process. For example, state statutes or local ordinances may require a primary government to select its appointees from a slate of candidates provided by one or more individuals or groups other than the primary government's officials or appointees. A primary government's appointment authority is not substantive if the number of candidates is severely limited by the nominating process, for example, if a primary government must

⁴Inclusion as a component unit is subject to the considerations in paragraph .138 regarding the potential for dual inclusion. [GASBS 61, ¶16]

⁵This also includes situations in which a voting majority of an organization's governing body consists of the primary government's officials *serving as required by law* (and, thus, technically not *appointed* by the primary government). [GASBS 14, fn5; GASBS 61, ¶16]

⁶See footnote 4. [GASBS 61, ¶16]

select three appointees from a single slate of five candidates. Additionally, a primary government's appointment authority may not be substantive if its responsibility is limited to confirming appointments made by individuals or groups other than the primary government's officials or appointees. [GASBS 14, ¶23]

.123 In most instances, legal provisions for appointment of an organization's officials also provide for continuing appointment authority. However, in the absence of continuing appointment authority, the ability of a primary government to unilaterally abolish an organization also provides the basis for ongoing accountability. Thus, a primary government that creates an organization (creation is tantamount to the initial appointment of the governing body) is accountable for the organization if the primary government can unilaterally abolish it. A primary government is considered to be accountable for an organization as long as continuing appointments are made by the primary government, even if those appointments are made by a subsequent administration. [GASBS 14, ¶24]

.124 [GASBS 97, ¶4, and new footnote 7.]

Imposition of Will

.125 A primary government that is accountable for an organization because it appoints a voting majority of that organization's governing body frequently has the ability to affect that organization's operations. Sometimes, however, based on the provisions of law or contract, the primary government has little influence over the organization's operations. Certain conditions indicate the primary government's ability to affect the day-to-day operations of an organization. These conditions are referred to in this section as a government's ability to impose its will on an organization. If a primary government appoints a voting majority of an organization's officials *and* has the ability to impose its will on the organization, the primary government is financially accountable for that organization. [GASBS 14, ¶25]

.126 *A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.* The existence of *any one* of the following conditions clearly indicates that a primary government has the ability to impose its will on an organization:

- a. The ability to remove appointed members of the organization's governing board at will.
- b. The ability to modify or approve the budget of the organization.
- c. The ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases.
- d. The ability to veto, overrule, or modify the decisions (other than those in b and c) of the organization's governing body.
- e. The ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization.

Other conditions may also indicate that a primary government has the ability to impose its will on an organization. In determining whether imposition of will exists, a distinction should be made between substantive approvals and ministerial (or compliance) approvals as discussed in paragraphs .116 and .117. [GASBS 14, ¶26]

Financial Benefit to or Burden on a Primary Government

.127 An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. The benefit or burden may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit. If a primary government appoints a voting majority of an organization's officials or if the organization is fiscally dependent on the primary government *and* there is a potential for that organization either to provide specific financial benefits to or to impose specific financial burdens on the primary government, the primary government is financially accountable⁷ for that organization. An organization has a financial benefit or burden relationship with the primary government if, for example, *any one* of these conditions exists:

- a. The primary government is legally entitled to or can otherwise access the organization's resources.
- b. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- c. The primary government is obligated in some manner for the debt of the organization.
- d. The primary government is legally obligated or has otherwise assumed the obligation to make contributions to an organization that is a defined benefit pension plan or defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5 or paragraph .101 of Section Po50, respectively.

Except as noted in subparagraph (d), exchange transactions between organizations and the primary government should not be considered manifestations of a financial benefit or burden relationship. In an exchange transaction, such as a purchase or sale of goods or services, each participant (the government or its employees rather than the citizenry) directly receives and sacrifices value. For example, funding by a primary government for higher education is *not* equivalent to purchasing educational services and would be considered a manifestation of a financial burden on the primary government. [GASBS 14, ¶27, as amended by GASBS 61, ¶6, GASBS 84, ¶7, and GASBS 97, ¶5; GASBS 84, ¶7, as amended by GASBS 97, ¶5]

.128 The effect of the financial benefits or burdens on the primary government can be either direct or indirect. A direct financial benefit or burden occurs when the primary government itself is entitled to the resources or is obligated for the deficits or debts of the organization. An indirect benefit or burden exists if one or more of the primary government's component units are entitled to the resources or is obligated for the deficits

⁷[GASBS 97, fn1]

⁸See footnote 4. [GASBS 61, ¶6]

or debts of the organization. For purposes of this section, a financial benefit or burden relationship exists if the primary government is either directly or indirectly entitled to the resources or is either directly or indirectly obligated for the deficits or debts of an organization. [GASBS 14, ¶28]

.129 *Legally Entitled to or Can Otherwise Access the Organization's Resources.* The *ability* to access the resources of an organization—not necessarily whether there was an actual transaction during the period—is the important factor for determining when a primary government is entitled to an organization's resources. However, the ability to access the resources of an organization should be judged in light of the organization as a going concern; that is, a residual interest in the net assets of an organization in the event of dissolution is not equivalent to being entitled to its resources. If a primary government appoints a voting majority of an organization's officials *and* is legally entitled to or can otherwise access the organization's resources, the primary government is financially accountable for that organization. [GASBS 14, ¶29]

.130 Resources may flow from a component unit to a primary government for several reasons. Some organizations may operate activities, such as off-track betting or lotteries, for the principal purpose of generating net revenues that are accessible to the primary government. These organizations provide financial benefits to the primary government. Other organizations may operate activities (for example, public utilities) for the purpose of providing basic public services and charge rates sufficiently high to also provide a financial benefit to the primary government. These benefits may be characterized as "payments in lieu of taxes" or "contributions," or they may simply be amounts remitted on request of the primary government. These organizations also provide financial benefits to the primary government. [GASBS 14, ¶30]

.131 *Legally Obligated or Has Otherwise Assumed the Obligation to Finance the Deficits of, or Provide Financial Support to, the Organization.* A primary government may be obligated to finance the deficits of, or provide financial support to, an organization in different ways. It could be legally obligated to do so, or it may choose to do so for a variety of reasons. If a primary government appoints a voting majority of an organization's officials *and* is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, that organization, the primary government is financially accountable for that organization. The following are examples of financial burdens assumed by a primary government in support of certain organizations:

- a. Some organizations provide public services financed by user charges that are not expected to be sufficient to sustain their operations. This situation often results from providing services such as mass transit, higher education, and healthcare. In these cases, public policy may dictate that a state or local government provide financial support to the organization to increase the availability and affordability of the service to a broader segment of the citizenry. Examples of support include annual

appropriations to help meet operating ~~expenditures~~ outflows short-term financial ~~of resources~~/expenses, periodic capital grants, and direct payment of outflows ~~of short-term financial resources for capital outlays expenditures~~—or debt service.

- b. A primary government may assume an obligation to finance the deficits of an organization. These deficits may or may not be expected to recur annually. A financial burden exists if the primary government is obligated to finance an organization's deficits even though there has not been, and may never be, a deficit to subsidize.

[GASBS 14, ¶31, as amended by GASBS XX, ¶22 and ¶23]

.132 Some organizations' operations are fully or partially funded by revenues generated through tax increment financing. Legally separate development or redevelopment authorities sometimes receive the incremental taxes that result from a tax increment financing arrangement. When this is done, *a taxing government temporarily waives its right to receive the incremental taxes from its own levy*. The incremental taxes instead are remitted to the separate organization. For purposes of this section, this type of tax increment financing should be considered evidence of an obligation to provide financial support to an organization (a financial burden), regardless of whether the primary government collects the taxes and remits them to the organization or the incremental taxes are paid directly to the organization. [GASBS 14, ¶32]

.133 *Obligated in Some Manner for the Debt of an Organization*. An obligation for the debt of an organization is similar to the notion that a primary government may be obligated for future operating deficits. The obligation can be either expressed or implied. A primary government is obligated in some manner for the debt of an organization if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) it *may* take certain actions to assume secondary liability for all or part of the debt, *and* the government takes, or has given indications that it will take, those actions. Conditions that indicate that a primary government is obligated in some manner include:

- a. The primary government is *legally obligated* to honor deficiencies to the extent that proceeds from other default remedies are insufficient.
- b. The primary government is *required* to temporarily cover deficiencies with its own resources until funds from the primary repayment source or other default remedies are available.
- c. The primary government is *required* to provide funding for reserves maintained by the debtor organization, or to establish its own reserve or guarantee fund for the debt.
- d. The primary government is *authorized* to provide funding for reserves maintained by the debtor organization or to establish its own reserve or guarantee fund *and* the primary government *establishes* such a fund. (If a fund is not established, the considerations in subparagraphs f and g may nevertheless provide evidence that the primary government is obligated in some manner.)
- e. The primary government is *authorized* to provide financing for a fund maintained by the debtor organization for the purpose of purchasing or redeeming the organization's debt, or to establish a similar fund of its own, *and* the primary government

- establishes* such a fund. (If a fund is not established, the considerations in subparagraphs f and g may nevertheless provide evidence that the primary government is obligated in some manner.)
- f. The debtor government explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default the primary government *may* cover deficiencies although it has no legal obligation to do so. That is, the bond offering statement may specifically refer to a law that authorizes the primary government to include an appropriation in its budget to provide funds, if necessary, to honor the debt of the organization.
 - g. Legal decisions within the state or previous actions by the primary government related to actual or potential defaults on another organization's debt make it *probable* that the primary government will assume responsibility for the debt in the event of default.

If a primary government appoints a voting majority of an organization's officials *and* is obligated in some manner for the debt of that organization, the primary government is financially accountable for that organization. [GASBS 14, ¶33]

Financial Accountability Arising from Fiscal Dependency

.134 A primary government may be financially accountable for a fiscally dependent government regardless of whether the fiscally dependent government has a separately elected governing board, a board appointed by another government, or a jointly appointed board. Paragraphs .115–.117 provide the criteria for determining fiscal independence or dependence. A fiscally dependent government that has the potential to provide a financial benefit to, or to impose a financial burden on, a primary government would be reported as part of that primary government's financial reporting entity. Paragraphs .126–.132 provide the criteria for determining whether a financial benefit or burden relationship exists. [GASBS 14, ¶34; GASBS 61, ¶6; GASBS 84, ¶7, as amended by GASBS 97, ¶5]

.135 *Special-Purpose Governments with Separately Elected Governing Boards.* Many special-purpose governments have separately elected governing boards. Some are fiscally independent, and others are fiscally dependent on another government. For example, many local school boards are separately elected. However, a local general purpose government may approve the school board's budgets and levy a property tax for the school district. These school districts (sometimes called "dependent school districts") should be reported as component units of the primary government on which they are fiscally dependent if a financial benefit or burden relationship also exists. [GASBS 14, ¶35, as amended by GASBS 61, ¶6]

.136 *Governmental Organizations with Boards Appointed by Another Government.* Governmental organizations may be fiscally dependent on a local government even when their governing boards are *appointed by a higher level of government*. For example, local school boards in some jurisdictions may be appointed by state officials, but the responsibility for approving the school boards' budgets, authorizing the issuance of debt, and levying their property taxes may be vested in the local general

purpose governments (cities or counties) where the school boards are located. As discussed in paragraph .138, these school boards usually would be included in the local government's financial reporting entity because of their *fiscal dependency* on the local government if there also is a financial benefit or burden relationship with it, even though the local government does not appoint any members of the school district's governing board. [GASBS 14, ¶136, as amended by GASBS 61, ¶6]

.137 *Governmental Organizations with Jointly Appointed Boards.* In some states there may be governmental organizations, such as port authorities, transportation authorities, river authorities, and other regional governments, that are governed by boards that are appointed by officials of more than one government (for example, a group of local governments, or a state and certain local governments), but none appoints a voting majority. If, however, a governmental organization is fiscally dependent on only one of the appointing governments (for example, a port authority may not be empowered to issue debt without substantive state approval), it should be included as a component unit of that government if a financial benefit or burden relationship also exists. [GASBS 14, ¶137, as amended by GASBS 61, ¶6]

Majority Equity Interests

.138 If a government's holding of a majority equity interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and, therefore, the government should report the legally separate organization as a component unit. For purposes of applying this section, an equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable.⁸ [GASBS 90, ¶13 and ¶17]

Potential for Dual Inclusion

.139 In some instances, the financial accountability criteria of paragraph .120a indicate that an organization is a component unit of a particular primary government. However, that organization may also be fiscally dependent on and have a financial benefit or burden relationship with another state or local government (as discussed in paragraphs .115–.117 and .120b). In these situations, the organization meets the benchmark for inclusion in more than one reporting entity. However, an organization should

⁸The definition of equity interest is not intended to include a government's residual interest in assets that may (on dissolution) revert to the government for lack of another equitable claimant. This type of interest is, in substance, the same as escheatage, that is, the reversion of property to a state resulting from the absence of any known, rightful inheritors to the property. [GASBS 90, fn1]

be included as a component unit of only one reporting entity. For example, state governments, in particular, mandate functions to be performed by local governments and provide financial aid for a portion of the ~~expenditures~~outflows of short-term financial resources. Elementary and secondary education typically is financed through a combination of local taxation and state aid distributed in accordance with legislatively established formulas. In most such instances, the entity status of a school district will be readily apparent as either a primary government or a component unit of a local government because either its governing board is separately elected or a voting majority is appointed by the local government. In some instances, however, school district governing boards are appointed by state officials, and the state may appear to be financially accountable for the district because of the state aid distribution. Judgment needs to be exercised as to whether the district should be considered a component unit of the state or of a local government. Usually, fiscal dependency on a local government should govern in determining the appropriate reporting entity of such school districts. [GASBS 14, ¶138, as amended by GASBS 61, ¶6 and GASBS XX, ¶123]

Organizations Included in the Reporting Entity Although the Primary Government Is Not Financially Accountable

.140 Paragraph .111 provides that a primary government may determine, through exercise of management's professional judgment, that an organization that does not meet specific financial accountability criteria should be included as a component unit to prevent the reporting entity's financial statements from being misleading. This determination should be based on the nature and significance of the organization's relationship with the primary government. [GASBS 14, ¶139, as amended by GASBS 61, ¶14; GASBS 39, ¶15]

.141 In some states, authorities with state-appointed boards may be created to provide temporary fiscal assistance to a local government to alleviate that local government's fiscal distress. The authority should be evaluated as a potential component unit of the local government. If the authority issues debt on behalf of the local government and serves as a conduit for receiving dedicated revenues of the local government that are designated for repayment of the debt, the nature and significance of the relationship between the authority and the local government would warrant including the authority as a component unit of the local government. The temporary nature of the state-created authority emphasizes that the debt and revenues are, in substance, the debt and revenues of the local government. [GASBS 14, ¶140]

.142 A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access,⁹ a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

[GASBS 39, ¶5]

.143 In addition, other organizations should be evaluated as potential component units if they are closely related to,¹⁰ or financially integrated with,¹¹ the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. [GASBS 14, ¶41, as amended by GASBS 61, ¶5; GASBS 39, ¶6]

Reporting Component Units

.144 Financial statements of the reporting entity should provide an overview of the entity, yet allow users to distinguish between the primary government and its component units. Because of the closeness of their relationships with the primary government, component units that meet the criteria of Section 2600, paragraph .1123, should be blended as though they are part of the primary government. However, most component units, including those that meet the criteria of paragraph .142, should be discretely presented. Both blending and discrete presentation are discussed in Section 2600. [GASBS 14, ¶42; GASBS 39, ¶7]

.145 An organization that is a component unit of a financial reporting entity may have component units of its own. The component unit financial data that are incorporated

⁹The ability of the primary government to *otherwise access* the resources of an organization does not necessarily imply control over that organization or its resources; rather, it entails a broader concept. As noted in paragraph .129, the *ability to access* the resources of an organization—not necessarily whether there was an actual transaction during the period—is the important factor for determining when a primary government is entitled to an organization's resources. A primary government's *ability to otherwise access* may be demonstrated in several ways. For example, the primary government or its component units historically may have received, directly or indirectly, a majority of the economic resources provided by the organization, the organization previously may have received and honored requests to provide resources to the primary government, or the organization is a *financially interrelated* organization, as defined by FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. [GASBS 39, ¶5]

¹⁰For purposes of this evaluation, the focus generally would be on financial relationships. [GASBS 61, ¶5]

¹¹Financial integration may be exhibited and documented through the policies, practices, or organizational documents of either the primary government or the organization being evaluated as a potential component unit. [GASBS 39, ¶6; GASBS 61, ¶5]

into a reporting entity's financial statements should include the data from all of its component units. In effect, this section should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government. For example, a school district may be a component unit of a municipality because the municipality appoints the governing board of the district and the district imposes a financial burden on the municipality. If the school district is financially accountable for another organization (a building authority, for example), the district should apply the definition and display provisions of this section to the building authority. The municipality should apply the definition and display provisions of this section to the school district's "entity," which includes the building authority. The building authority is not a component unit of the municipality *per se*; however, its financial data would be included in the primary government's financial reporting entity as a part of the school district. When reported in the fiduciary fund financial statements of a primary government, a fiduciary component unit should include the combined information of its own component units that are fiduciary component units. That combined information should be aggregated with the primary government's fiduciary funds based on the classifications of fiduciary funds (see paragraphs .128–.134 of Section 1300, "Fund Accounting"). [GASBS 14,

¶43; GASBS 84, ¶7, as amended by GASBS 97, ¶5; GASBS 84, ¶26]

Reporting Requirements for Financial Reports of Component Units, Joint Ventures, and Jointly Governed Organizations

.146 The provisions of this section apply to separate financial reporting by component units, joint ventures, and jointly governed organizations. Section 2600 provides guidance on presenting component unit financial information, both in combined financial reports of the reporting entity and in separately issued component unit financial reports. Section J50 provides guidance on reporting an entity's participation in a joint venture. [GASBS 14, ¶9]

DEFINITIONS

.501 The following paragraphs contain definitions of certain terms as *they are used in this section*. Paragraph references direct the reader to a more complete discussion of the term within this section and Sections 2600 and J50.

.502 **Accountability (accountable).** The relationship that results from the appointment of a voting majority of an organization's governing board. [2100.109] [GASBS 14, ¶131]

.503 **Appoint.** To select members of a governing body (as long as the ability to do so is not severely limited by a nomination process) or confirm appointments made by others (provided that the confirmation is more than a formality or part of a ministerial responsibility). [2100.121–.123] [GASBS 14, ¶131]

.504 **Blending (blended).** The method of reporting the financial data of a component unit that presents the component unit's balances and transactions in a manner similar to the presentation of the balances and transactions of the primary government. [2600.1112–.1134] [GASBS 14, ¶131]

.505 **Component units.** Legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. [2100.119] [GASBS 14, ¶131]

.506 **Discrete presentation (discretely presented).** The method of reporting financial data of component units in columns and rows separate from the financial data of the primary government. An integral part of this method of presentation is that major component unit supporting information is required to be provided presented in a separate column in the reporting entity's basic financial statements by (a) presenting each major component unit in a separate column in the reporting entity's statements of net position and activities if it does not reduce the readability of the statements. If presenting each major component unit in a separate column in the reporting entity's statements of net position and activities, reduces the readability of the statements, (b) including combining statements of major component units should be included in the reporting entity's basic financial statements after the fund financial statements, or (c) presenting condensed financial statements in the notes to the reporting entity's basic financial statements. [2600.107] [GASBS 14, ¶131, as amended by GASBS 34, ¶6 and ¶126, and GASBS 63, ¶8, and GASBS XX, ¶133; GASBS 34, ¶14]

.507 **Equity interest.** A financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is

explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable.¹² [2100.137; 2600.1156] [GASBS 90, ¶13]

.508 **Equity interest in a joint venture.** A financial interest in a joint venture evidenced by the ownership of shares of the joint venture's stock or by otherwise having an explicit, measurable right to the net resources of the joint venture that is usually based on an investment of financial or capital resources by a participating government. [J50.105–.108] [GASBS 14, ¶131, as amended by GASBS 90, ¶13]

.509 **Financial accountability (financially accountable).** The level of accountability that exists if a primary government appoints a voting majority of an organization's governing board *and* is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government. [2100.120–.136] [GASBS 14, ¶131]

.510 **Financial benefit.** Legal entitlement to, or the ability to otherwise access, the resources of an organization. [2100.128 and .129] [GASBS 14, ¶131]

.511 **Financial burden.** An obligation, legal or otherwise, to finance the deficits of, or provide financial support to, an organization; an obligation in some manner for the debt of an organization; or an obligation, legal or otherwise, to make contributions to an organization that is a defined benefit pension plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5 or a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Po50. [2100.130–.132] [GASBS 14, ¶131; GASBS 84, ¶7, as amended by GASBS 97, ¶5]

.512 **Financial reporting entity.** A primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. [2100.109–.111] [GASBS 14, ¶131, as amended by GASBS 34, ¶6]

.513 **Fiscally independent/Fiscally dependent government.** A government is fiscally *independent* if it can (a) determine its budget without another government having

¹²The definition of equity interest is not intended to include a government's residual interest in assets that may (on dissolution) revert to the government for lack of another equitable claimant. This type of interest is, in substance, the same as escheatage, that is, the reversion of property to a state resulting from the absence of any known, rightful inheritors to the property. [GASBS 90, fn1]

the substantive authority to approve and modify that budget, (b) levy taxes or set rates or charges without substantive approval by another government, and (c) issue bonded debt without substantive approval by another government. A government is fiscally *dependent* if it is unable to complete one or more of these procedures without the substantive approval of another government. [2100.115–.117 and 2100.133–.137] [GASBS 14, ¶131]

.514 **Imposition of will (impose its will).** The ability to significantly influence the programs, projects, activities, or level of services performed or provided by an organization. [2100.124 and .125] [GASBS 14, ¶131]

.515 **Jointly governed organizations.** A regional government or other multigovernmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. [J50.111] [GASBS 14, ¶131]

.516 **Joint venture.** A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain

(a) an ongoing financial interest or (b) an ongoing financial responsibility. [J50.102–.104] [GASBS 14, ¶131]

.517 **Legally separate organization (separate legal standing).** An organization created as a body corporate or a body corporate and politic or otherwise possessing similar corporate powers. An organization that has separate legal standing has an identity of its own as an “artificial person” with a personality and existence distinct from that of its creator and others. [2100.114] [GASBS 14, ¶131]

.518 **Ongoing financial interest.** An equity interest or any other arrangement that allows a participating government to have access to a joint venture’s resources. [J50.103] [GASBS 14, ¶131]

.519 Ongoing financial responsibility

- a. A participating government is obligated in some manner for the debts of a joint venture.
- b. The joint venture’s existence depends on continued funding by the participating government. [J50.104]
[GASBS 14, ¶131]

.520 **Operational responsibility.** The level of responsibility that exists when management of a primary government manages the activities of the component unit in essentially the same manner in which it manages its own programs, departments, or agencies. Management, for purposes of this determination, consists of the person(s), below

the level of the governing board, responsible for the day-to-day operations of the primary government (for example, a county executive or city manager). [2600.112~~3~~] [GASBS 61, ¶18]

.521 **Other stand-alone government.** A legally separate governmental organization that (a) does not have a separately elected governing body and (b) does not meet the definition of a component unit. Other stand-alone governments include some special-purpose governments, joint ventures, jointly governed organizations, and pools. [2600.125] [GASBS 14, ¶131]

.522 **Primary government.** A state government or general purpose local government. Also, a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. [2100.111] [GASBS 14, ¶131]

.523 **Related organization.** An organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) even though the primary government appoints a voting majority of the organization's governing board. [2600.128] [GASBS 14, ¶131]

GASB TECHNICAL BULLETINS**Tobacco Settlement Recognition and Financial Reporting Entity Issues**

.601 This paragraph clarifies guidance on whether a Tobacco Settlement Authority (TSA) that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, this paragraph clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies. [GASBTB 2004-1, ¶2]

Question

Is a TSA that is created by a settling government to obtain the rights to all or a portion of the government's future tobacco settlement resources (TSRs) a component unit of that government? [GASBTB 2004-1, ¶3]

Response

The *financial accountability* criteria in paragraphs .120 –.138 of this section should be applied to determine if a TSA that is created by a settling government to obtain the rights to all or a portion of the government's future TSRs should be reported as a component unit of that government. [GASBTB 2004-1, ¶4; GASBS 90, ¶7; GASBS 97, ¶4]

Similar forms of a “public corporation” structure have generally been used when governments create separate organizations for the purpose of selling bonds and using the proceeds to obtain the government's TSRs. Not all TSAs are organized in exactly the same manner, but generally, the settling government appoints a voting majority of the TSA's governing board. Ordinarily, the governing board of a TSA is composed of certain of the government's officials (by virtue of their office or title), by appointees of the government, or by a combination of government officials and appointees. Therefore, in these situations the first criterion in determining financial accountability—the appointment of a voting majority—has been met. [GASBTB 2004-1, ¶5]

A TSA is a component unit of the settling government if the TSA is fiscally dependent on the government, as described in paragraph .115 of this section, or if the government

appoints a voting majority of the TSA's governing board and one of the following relationships also exists:

- a. The TSA potentially could provide specific financial benefits to, or impose specific financial burdens on, the government.¹³
- b. The government is able to impose its will on the

TSA. [GASBTB 2004-1, ¶6]

One manifestation of a financial benefit/burden relationship occurs when a government is legally entitled to, or can otherwise access, a potential component unit's resources. Typically, the legislation authorizing the creation of a TSA and the agreement between the TSA and the settling government require the disposition of the settlement resources received by the TSA that are in excess of the debt service and reserve funding requirements. Often, the agreement stipulates that the TSA will remit to the government the proceeds of the tobacco settlement revenue bonds and will provide a residual certificate. The certificate identifies the government as the sole beneficiary of a residual trust, in which the excess TSRs are required to be deposited by the TSA. Some agreements do not provide for a residual trust. In those situations, TSRs in excess of the scheduled annual debt service requirements are required to be used for the early retirement of the TSA's bonds. Regardless of the specific accounting or reserve funding requirements that may be imposed by an agreement between a settling government and its TSA, the settling government is ultimately entitled to the proceeds of any future bond issuances by the TSA and any TSRs not needed for debt service or to pay the operating expenses of the TSA. [GASBTB 2004-1, ¶7]

Because the TSA obtains the rights to a specific portion (up to 100 percent) of the settling government's future settlement payments, the TSA possesses not only the rights to the future TSRs that are expected to service its debt, but also the rights to future TSRs that are expected to ultimately revert to the government. Therefore, by virtue of the TSA's unequivocal right to the future TSRs and the government's entitlement to the potential "excess" resources of the TSA, it can be concluded that *the government is entitled to the resources of the TSA*. When that entitlement is combined with the appointment of the voting majority of the TSA's governing board, the financial accountability criteria are met and the TSA should be reported as a component unit of the settling government.¹⁴ [GASBTB 2004-1, ¶8]

¹³Although the transaction between a TSA and a settling government is an exchange transaction, it is not consistent with the intent of paragraph .126 of this section, which was to exclude from the scope of possible manifestations of financial benefits and burdens transactions between a primary government and a component unit in the ordinary course of business—that is, purchases and sales of goods and services. [GASBTB 2004-1, fn1]

¹⁴The entitlement to the TSA's resources is a common aspect of the relationship between a settling government and its TSA. In many instances, additional financial benefit/burden, imposition of will, or fiscal dependency criteria also are met. [GASBTB 2004-1, fn2]

GASB IMPLEMENTATION GUIDES

Note: References to “primary government,” other than in Questions .706-2–.706-5 pertaining to definitions, are equally applicable to other stand-alone governments and component units in their separately issued financial statements.

.701 Scope of This Section

.701-1 Q—Is this section applicable to all governments, including those that do not meet the primary government criteria in paragraph .112 of this section?

A—Yes. Paragraph .101 of this section states:

The requirements of this section apply at all levels to all state and local governments. This section applies to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments; and it applies to the separately issued financial reports of governmental component units. This includes governmental enterprises, public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities.

Paragraph .111 of this section reiterates this position, stating:

The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or another standalone government) serves as the nucleus for its own reporting entity when it issues separate financial reports. Although this section is written from the perspective of the primary government, its requirements apply to the separately issued basic financial statements of governmental component units, joint ventures, jointly governed organizations, and other standalone governments.

An organization that is a component unit of a financial reporting entity may have component units of its own. For example, a school district may be a component unit of a county because the county appoints the governing board of the district, and the district imposes a financial burden on the county. The school district also could be financially accountable for an educational

foundation and thus apply the provisions of this section to the foundation when the foundation is included in the school district's separately issued basic financial statements.

[GASBIG 2015-1, Q4.2.1]

- .701-2 Q—Should the reporting entity criteria be applied in determining whether nongovernmental organizations are component units?

A—Yes. Footnote 3 of this section provides that “a component unit may be a governmental organization (except those that meet the definition of a primary government in paragraph .112 of this section), a nonprofit corporation, or a for-profit corporation.” The financial accountability criteria in paragraph .121 of this section should be applied to all potential component units, including nongovernmental organizations. Requirements for governmental *and nongovernmental* organizations that *do not* meet the financial accountability criteria are provided in paragraphs .140–.143 of this section. Paragraph .142 provides criteria that, if met, *require* certain organizations to be included as part of the financial reporting entity because of the nature and significance of the organizations' relationships with the primary government. Paragraph .142 states that other organizations should be *considered* for inclusion as component units if they are closely related to, or financially integrated with, the primary government.

[GASBIG 2015-1, Q4.2.2]

- .701-3 Q—Does this section apply to nongovernmental component units when they are included in a governmental reporting entity?

A—Yes. Paragraph .101 of this section states that “this section should be applied to all governmental *and nongovernmental* component units when they are included in a governmental financial reporting entity” (emphasis added).

For example, for the purposes of preparing the financial statements for the governmental reporting entity, a nongovernment component unit of the governmental reporting entity would need to apply this section to its potential component units to determine whether or not they meet the criteria to be included as component units.

(See Question .713-4 in Section 2600 about separately issued financial statements of a nongovernmental component unit.)

[GASBIG 2015-1, Q4.33.2]

.702 Background

No questions assigned.

.703 The Financial Reporting Entity Concept

No questions assigned.

.704 Definition of the Financial Reporting Entity

.704-1 Q—An organization concludes that it qualifies as a component unit of a primary government based on the “misleading to exclude” criterion in paragraph .111 of this section, but the primary government does not reach the same conclusion. Should the organization identify itself as a component unit of the primary government?

A—Paragraph .119 of this section states that organizations qualify as component units if “the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading.” The ultimate responsibility to decide whether an organization is a component unit rests with the primary government, not with the potential component unit. So in this case, the decision by the primary government that the organization is not a component unit overrides the opinion of the potential component unit regarding the “misleading to exclude” criterion. The organization should describe the relationship with the primary government in the notes to its financial statements.

[GASBIG 2015-1, Q4.26.1]

.705 Primary Governments

No questions assigned.

.706 Definition of a Primary Government

.706-1 Q—Is every governmental organization required to be included in a reporting entity governed by elected officials?

A—No. Although most governmental organizations would be included in a reporting entity governed by elected officials, some will not. Those organizations that are not included generally are referred to as other stand-alone governments. Paragraph .126 of this section defines other stand-alone governments as those that (a) do not have a separately elected governing body

and (b) do not meet the definition of a component unit. Other stand-alone governments are not directly governed by elected officials.

[GASBIG 2015-1, Q4.2.3]

.706-2 Q—Does a government have to meet all three criteria in paragraph .112 of this section to be considered a primary government?

A—No. Any *state or general purpose local government* (municipality or county) is a primary government. However, a *special-purpose* government can also be a primary government, but only if it meets all of the following criteria:

- a. It has a separately elected governing body. (See Questions .706-4 and .706-5 in this section.)
- b. It is legally separate. (See Questions .706-6 and .707-1–.707-11 in this section.)
- c. It is fiscally independent of other state and local governments. (See Questions .708-1–.708-4, .712-1, .716-1, and .716-2 in this section.)

[GASBIG 2015-1, Q4.6.1, as amended by GASBIG 2019-2, Q4.1–Q4.3]

.706-3 Q—What is the importance of the primary government distinction?

A—The primary government distinction is significant because a government that meets the definition of a primary government may not be reported as a component unit of another primary government. Footnote 3 of this section specifically states that an organization that meets the definition of a primary government cannot be a component unit. (See Questions .706-7, .708.4, and .711-4 in this section for discussion of primary governments as potential component units.)

[GASBIG 2015-1, Q4.6.2, as amended by GASBS 84, ¶5]

.706-4 Q—A public employee retirement system has a governing board that is elected by the members of the system. Does this constitute a *separately elected* governing body in accordance with paragraph .112a of this section?

A—No. Paragraph .112 stipulates that the election should be by the “citizens in a general, popular election.” Thus, an election by the members or participants in associations and organizations does not meet the criteria for defining a primary government.

[GASBIG 2015-1, Q4.7.1]

.706-5 Q—Officials are simultaneously elected to serve on the governing boards of two legally separate organizations. For example, county commissioners are elected to serve on the county board of commissioners and, as a result of that election, also serve as the county parks and recreation board. Would both governing boards be considered separately elected?

A—No. There would be no difference between a board that is serving in a dual capacity based on a single election and a board consisting of primary government officials serving “ex officio,” or as required by law. In this example, only the county board of commissioners would be considered separately elected.

[GASBIG 2015-1, Q4.7.2]

.706-6 Q—How should an organization that is *not* legally separate be displayed in the reporting entity’s financial statements?

A—An organization that is *not* legally separate should not be considered a component unit. It should be reported as part of the primary government that holds the corporate powers. The organization would be reported in the same manner as departments or agencies of the primary government.

[GASBIG 2015-1, Q4.8.9]

.706-7 Q—A statute grants the state oversight control over the budgets of all counties and municipalities of the state. Given the various financial benefits and burdens that exist between a state and its local governments, should the counties and municipalities be evaluated as potential component units of the state under the fiscal dependency criteria in paragraph .115 of this section?

A—No. Paragraph .119 of this section states that “component units are legally separate organizations for which the elected officials of the primary government are financially accountable.” Footnote 3 of this section clarifies that provision and states that “a component unit may be a governmental organization (except those that meet the definition of a primary government in paragraph .112 of this section) ” Paragraph .112 defines a primary government as “any state government or general purpose local government.” Therefore, because counties and municipalities are general purpose governments, they should not be considered potential component units of the state.

[GASBIG 2015-1, Q4.10.2]

.707 Determining Separate Legal Standing

.707-1 Q—What determines whether an organization is “legally separate”?

A—Paragraph .114 of this section states that an organization has separate legal standing:

- If it is created as a body corporate or a body corporate and politic, or
- If it otherwise possesses the corporate powers that would distinguish it as being legally separate from the primary government.

Most legally separate organizations are readily identifiable as such by a corporate charter that sets forth the powers that accompany incorporation. Generally, corporate powers give an organization:

- The capacity to have a name
- The right to sue and be sued in its own name without recourse to another state or local governmental unit
- The right to buy, sell, lease, and mortgage property in its own name.

Paragraph 109 of the Basis for Conclusions of Statement No. 14, *The Financial Reporting Entity*, states that the concept of legal separateness may be subject to interpretation and that professional judgment should be used to make this determination. In addition, there is no specific set of corporate powers that an organization is required to possess to be considered legally separate. An organization may be legally separate even without a corporate charter if it has been statutorily granted the typical corporate powers possessed by a chartered corporation.

[GASBIG 2015-1, Q4.8.1]

.707-2 Q—Should a pension or OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, “Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit,” paragraph .101 of Section Pe6, “Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Contribution,” paragraph .101 of Section Po50, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Benefit,” or paragraph .101 of Section Po51, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Contribution,” as applicable, be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes?

A—Yes. For purposes of applying the criteria in paragraph .114 of this section, paragraph .130 of Section 1300 states that such plans should be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes.

[GASBIG 2019-2, Q4.1]

.707-3 Q—Is the answer in Question .707-2 the same regardless of whether the pension or OPEB plan is a defined benefit plan or a defined contribution plan?

A—Yes. Regardless of whether the pension or OPEB plan is a defined benefit plan or a defined contribution plan, if the pension or OPEB plan is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, the plan should be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes.

[GASBIG 2019-2, Q4.2]

.707-4 Q—Should pension or OPEB plans that are administered through equivalent arrangements that meet the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes?

A—A pension or OPEB plan that is administered through an equivalent arrangement that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, may or may not be legally separate. Determining whether those plans are legally separate from the employers, nonemployer contributing entities, and the plan administrator is a legal issue.

[GASBIG 2019-2, Q4.3, as amended by GASBS 97, ¶5]

.707-5 Q—Is legal counsel necessary to determine separate legal standing?

A—No. Legal counsel is not required to support a determination of separate legal standing. It may be useful, however, to consult legal counsel in

making the determination of separate legal standing if there is a question about the legal status of an organization.

[GASBIG 2015-1, Q4.8.2]

.707-6 Q—Are there any corporate powers that a potential component unit is required to possess to be considered legally separate?

A—No. There is no specific set of powers that an organization is required to possess to be considered legally separate. As explained in paragraph 109 in the Basis for Conclusions in Statement 14, it is not essential to possess all of a given set of corporate powers. Professional judgment should be used to decide whether a legally separate organization exists based on the corporate powers granted and all other relevant information.

[GASBIG 2015-1, Q4.8.3]

.707-7 Q—Similar organizations within a state were created under separate enabling legislation. All of the organizations have the same corporate powers. In some cases, the legislation specifically states that the organization is a “body corporate or a body corporate and politic,” but in other cases, the legislation does not include this language. Is “body corporate” or “body corporate and politic” language required for an organization to be considered legally separate?

A—No. Paragraph .114 of this section states that “an organization has separate legal standing... if it otherwise possesses the corporate powers that would distinguish it as being legally separate.” Therefore, it would not be necessary for the legislation to explicitly state that the organization is a “body corporate and politic” for it to be considered legally separate. [GASBIG 2015-1, Q4.8.4]

.707-8 Q—Is the authority for a potential component unit to issue bonds in its own name equivalent to having the right to mortgage property?

A—No. The power to issue bonds would not necessarily be equivalent to the right to mortgage property. However, the existence of authority to issue bonds should be considered in the determination of separate legal standing.

[GASBIG 2015-1, Q4.8.5]

- .707-9 Q—Would a consistent pattern of legal action with recourse to the primary government indicate that a potential component unit is not legally separate?

A—Paragraph .114 of this section states, in part, that corporate powers generally give “the right to sue and be sued in its own name *without recourse to a state or local governmental unit...*” (emphasis added). A consistent pattern of legal action with recourse to the primary government would indicate that the potential component unit cannot be sued in its own name *without recourse*. However, that one fact would not necessarily mean that the potential component unit is not legally separate from the primary government. All other factors should be considered.

[GASBIG 2015-1, Q4.8.6]

- .707-10 Q—If the law states that an organization is legally separate, without specific reference to “body corporate,” or “body corporate and politic,” but does not explicitly grant the organization any corporate powers, would it be considered legally separate?

A—There is no requirement that the law explicitly grant a set of corporate powers to an organization for it to be considered legally separate. However, if the law does not grant any of the corporate powers normally associated with a separate legal entity, use of professional judgment would be necessary to determine whether or not the potential component unit actually *is* legally separate. It may be helpful to consult legal counsel. (See Question .707-1 in this section for further discussion on seeking legal counsel.)

[GASBIG 2015-1, Q4.8.7]

- .707-11 Q—A potential component unit has the corporate powers listed in paragraph .114 of this section (see Question .707-1 in this section), but the law specifically states that it is *not* legally separate. May the potential component unit be considered legally separate for purposes of applying this section?

A—Paragraph .114 states that “an organization has separate legal standing if it is created as a body corporate or a body corporate and politic, *or if it otherwise possesses the corporate powers that would distinguish it as being legally separate from the primary government ...*” (emphasis added).

Professional judgment should be used to determine the significance of specifically being designated as *not* legally separate. Legal counsel may be consulted if the law appears to contradict the conclusion reached by applying

the criteria of this section. (See Question .707-5 in this section for further discussion on seeking legal counsel.)

[GASBIG 2015-1, Q4.8.8]

.707-12 Q—Should an organization that is *not* legally separate be considered a potential component unit?

A—No. An organization that is *not* legally separate, as defined by this section, should not be considered a potential component unit. It should be reported in the same manner as departments or agencies of the primary government that holds the organization's corporate powers. (See Question .707-11 in this section.)

[GASBIG 2015-1, Q4.16.2]

.708 Determining Fiscal Independence or Dependence

.708-1 Q—What constitutes fiscal independence?

A—Paragraph .115 of this section states:

A special-purpose government is fiscally independent if it has the ability to complete certain essential fiscal events without substantive approval by a primary government. A special-purpose government is fiscally independent if it has the authority to do all three of the following:

- a. Determine its budget without another government's having the authority to approve and modify that budget.
- b. Levy taxes or set rates or charges without approval by another government.
- c. Issue bonded debt without approval by another government.

A special-purpose government that is not fiscally independent is fiscally dependent on the primary government that holds one or more of those powers [Footnote reference omitted.]

For example, if a special-purpose government that has the ability to set its own rates and issue debt submits its operating budget to a primary government for approval for compliance purposes only and that budget is not subject to amendments imposed by the primary government, it would be considered fiscally independent of the primary government.

(See Questions .708-5, .708-6, and .716-3 in this section for further discussion of budgetary authority, Questions .708-7-.708-9 and .716-4-.716-8 in this section regarding taxing and rate-setting authority, and Questions .708-10 and .708-11 in this section pertaining to debt approval.) [GASBIG 2015-1, Q4.9.1, as amended by GASBIG 2020-1, Q4.1 and Q4.2]

- .708-2 Q—Can fiscal dependence result solely from reliance on *funding* from another government?

A—No. *Fiscal dependence*, as the term is used in this section, should not be confused with financial benefit or burden. Fiscal dependence is related to control or oversight relationships rather than day-to-day financing of operations. Paragraph .115 of this section explains that “fiscal dependency does not necessarily imply that a financial benefit or burden relationship exists.” Similarly, reliance on funding does not necessarily imply that a *fiscal* dependency relationship exists. Therefore, despite a potential component unit’s reliance on the primary government’s appropriations, it is nevertheless fiscally independent if it meets the criteria in paragraph .115.

[GASBIG 2015-1, Q4.9.4]

- .708-3 Q—What is the difference between fiscal dependency and the ability to impose will?

A—The financial accountability of a primary government for another organization flows either from (a) the organization’s fiscal dependency on the primary government or (b) the primary government’s appointment of a voting majority of the governing board of the organization. The fiscal dependency criteria in paragraph .115 of this section relate to special-purpose governments with governing boards that are not appointed by the primary government. These criteria focus on the basic actions necessary for an organization to function as an autonomous government. If a special-purpose government is required to rely on another government to carry out any one of the responsibilities included in these criteria, it is not fiscally independent and is not able to function with autonomy. This would be true regardless of how the governing body of the organization is determined. In those cases, if there also is a financial benefit or burden relationship present, the special-purpose government would be included as a part of the reporting entity of the government that holds those powers.

The ability to impose will plays a different role in the determination of whether a primary government is financially accountable for an organization. Imposition of will was added as a means of determining whether the appointment authority granted to the primary government would result in financial

accountability. Therefore, imposition of will creates financial accountability only when coupled with the authority to appoint a voting majority of the potential component unit's governing board. (See Questions .712-2-.712-9, .713-1-.713-10, .714-3-.714-9, and .715-1-.715-15 in this section for further discussion of financial accountability.)

[GASBIG 2015-1, Q4.9.6, as amended by GASBS 97, ¶4 and ¶5 and GASBIG 2019-2, Q4.4, Q4.5, and Q4.7]

.708-4 Q—Would a primary government that is temporarily placed under the direct fiscal control of another entity lose its fiscal independence?

A—No. Footnote 2 of this section states that “a primary government that is temporarily under the fiscal control of another government continues to be fiscally independent for purposes of this section.” Therefore, a government in this situation would continue to apply the provisions of this section as a primary government. For example, some states have placed certain general purpose governments under the state's direct control. In those situations, the state's authority can include the authority to approve the budget and set tax rates for the local government, which would normally create a fiscal dependency relationship between the governments. However, because of the specific exclusion in footnote 2, the general purpose government would continue to report as a primary government.

[GASBIG 2015-1, Q4.9.7]

.708-5 Q—A potential component unit of a county is legally separate and has a separately elected governing board. The organization determines its own operating budget, but the county is required to approve its capital budget. Is the potential component unit fiscally independent?

A—No. Fiscal independence requires that a government be able to “determine its budget without another government's having the authority to approve and modify that budget” (paragraph .115a of this section). If another government has substantive approval authority for a portion of an organization's budget, the organization would not meet this criterion and should be evaluated as a potential component unit because it is fiscally dependent on the other government.

[GASBIG 2015-1, Q4.10.1]

.708-6 Q—A statute grants the state oversight control over the budgets of all counties and municipalities of the state. Given the various financial benefits and burdens that exist between a state and its local governments, should the

counties and municipalities be evaluated as potential component units of the state under the fiscal dependency criteria in paragraph .115 of this section?

A—No. Paragraph .119 of this section states that “component units are legally separate organizations for which the elected officials of the primary government are financially accountable.” Footnote 3 of this section clarifies that provision and states that “a component unit may be a governmental organization (except those that meet the definition of a primary government in paragraph .112 [of this section]) ” Paragraph .112 defines a primary government as “any state government or general purpose local government.” Therefore, because counties and municipalities are general purpose governments, they should not be considered potential component units of the state.

[GASBIG 2015-1, Q4.10.2]

.708-7 Q—Do state-legislated “ceilings” or rate limitations constitute approval of rates or charges (as set forth in paragraph .115b of this section) for determining the existence of fiscal independence?

A—No. Paragraph .116 of this section emphasizes the need for distinguishing between substantive approvals and ministerial or compliance-oriented approvals. That paragraph also acknowledges that special-purpose governments typically are subject to the general oversight of their state governments. By establishing legislated ceilings or rate limitations (for example, on property tax rates), the state is adopting a routine oversight role as part of its duty to protect the interests of its constituents. This action does not create fiscal dependence, as the term is defined in this section.

[GASBIG 2015-1, Q4.11.1]

.708-8 [GASBIG2020-1, Q4.1]

.708-9 [GASBIG2020-1, Q4.2]

.708-10 Q—State law prohibits certain types of special-purpose governments from incurring long-term debt. Are these special-purpose governments ineligible to be evaluated as primary governments because of the provision in paragraph .115c of this section?

A—No. Paragraph .115c provides that a special-purpose government is not fiscally independent if it cannot issue bonded debt without the approval of another government. In this case, the special-purpose governments’ fiscal abilities are *limited* because they cannot issue debt, but they are not *dependent* upon another government. Paragraph .117 of this section states that “a special-purpose government that is *statutorily prohibited* from incurring debt may be fiscally independent if it possesses the other two powers because the statutory prohibition does not subordinate the special-purpose

government to another government for debt approval.” The fiscal dependency issue is not whether the governments can or cannot issue bonded debt, but whether they can do so only with the approval of another government.

[GASBIG 2015-1, Q4.12.1]

- .708-11 Q—A potential component unit is prohibited by statute from issuing debt. If it becomes necessary to obtain financing for its operations, the potential component unit requests a primary government to issue debt on its behalf and is required to repay the primary government for the debt service payments. Is the potential component unit fiscally dependent on the primary government even though, technically, the primary government is not “approving” its debt?

A—Yes. The fiscal dependency criterion in paragraph .115c of this section states that a government is fiscally dependent if it is not able to issue bonded debt without the approval of another government. In this situation, the repayment arrangement makes the debt, in substance, the debt of the potential component unit, and the primary government’s willingness to issue the debt constitutes its approval. On the other hand, if the potential component unit was not required to repay the debt, the primary government’s actions would be equivalent to making a grant to the potential component unit and would constitute a financial burden, but would not be considered a manifestation of fiscal dependency.

[GASBIG 2015-1, Q4.12.2]

.709 Reporting the Primary Government

No questions assigned.

.710 Component Units

No questions assigned.

.711 Definition of Component Units

- .711-1 Q—What is a component unit?

A—Paragraph .119 of this section defines a component unit as an organization that is legally separate *and* for which the elected officials of the primary government are financially accountable, *or* for which the nature and significance of its relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be

misleading. Footnote 3 of this section further clarifies that a component unit may be any organization—governmental, nonprofit, or for-profit—that does not meet the definition of a primary government.

Examples of organizations that may meet the criteria to be included as component units include public benefit corporations or public authorities, such as port authorities; economic development corporations; mass transit systems; public colleges and universities; foundations; and financing entities that issue debt for major capital projects.

[GASBIG 2015-1, Q4.16.1]

.711-2 Q—Should an organization that is *not* legally separate be considered a potential component unit?

A—No. An organization that is *not* legally separate, as defined by this section, should not be considered a potential component unit. It should be reported in the same manner as departments or agencies of the primary government that holds the organization’s corporate powers. (See Question .707-11 in this section.)

[GASBIG 2015-1, Q4.16.2]

.711-3 Q—Can professional judgment be used as a basis to exclude an organization that meets the criteria for inclusion as a component unit?

A—No. Exclusion of a component unit that meets the criteria for inclusion in the reporting entity would be a departure from this section.

[GASBIG 2015-1, Q4.16.3]

.711-4 Q—Can a primary government include another primary government as a component unit on the basis that its financial statements would be misleading if the other primary government was not included in the reporting entity?

A—No. Footnote 3 of this section specifically states that an organization that meets the definition of a primary government cannot be a component unit. (See Question .706-3 in this section about the importance of the primary government distinction.)

[GASBIG 2015-1, Q4.26.3]

.711-5 Q— Should a pension plan be evaluated as a component unit of a primary government?

A—Yes. A pension plan should be evaluated using the financial accountability criteria of this section. In addition, paragraph .142 of this section notes that other organizations should be evaluated as potential component units if they are closely related to the primary government to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion.

[GASBIG 2015-1, Q4.62.2 and GASBIG 2016-1, Q4.13, as amended by GASBS 84, ¶6 and ¶7]

.712 Financial Accountability

.712-1 Q—Does fiscal dependency alone constitute financial accountability?

A—No. There also should be a financial benefit or burden relationship between the potential component unit and the primary government. The fiscal dependency criteria focus on capabilities that are essential to the fiscal autonomy of an organization. Therefore, the organization that has the capacity to carry out the fiscal responsibilities embodied within the criteria is financially accountable for that organization, if there also is a financial benefit or burden relationship with that organization.

[GASBIG 2015-1, Q4.9.5]

.712-2 Q—What is financial accountability?

A—The underlying concept for the definition of the financial reporting entity, as embodied in this section, is that elected officials are accountable for their actions, including the acts of those whom they appoint to govern other organizations, and that the financial statements should report this accountability. Although elected officials are accountable for the actions of all appointees, this section establishes financial accountability as the threshold for including an organization in the financial statements of the reporting entity. Generally, financial accountability results from one of the following determinations:

- a. The primary government is financially accountable if it appoints¹⁵ a voting majority of the organization's governing body and (1) it is able to

¹⁵Note that appointment includes primary government officials serving as required by law and, thus, technically not "appointed" by the primary government. Note also that in the absence of continuing appointment authority, the ability of a primary government to unilaterally abolish an organization also provides the basis for ongoing accountability. Thus, a primary government that creates an organization (creation is tantamount to initial appointment of the governing body) is accountable for the organization if the primary government can unilaterally abolish it. [GASBIG 2015-1, fn5; GASBIG 2019-1, fn1]

impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

- b. The primary government is financially accountable if a special-purpose government is fiscally dependent on the primary government and there is a potential for the special-purpose government to provide specific financial benefits to, or impose specific financial burdens on, the primary government, regardless of whether the special-purpose government has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board. (See Questions .708-1–.708-9, .712-1, and .716-1–.716-8 in this section for the discussion of fiscal dependency.)
- c. The primary government is financially accountable for a legally separate organization if the primary government’s holding of a majority equity interest in that organization does not meet the definition of an investment.

[GASBIG 2015-1, Q4.17.1, as amended by GASBS 90, ¶17 and GASBIG 2019-1, Q5.1]

.712-3 Q—Can a primary government be accountable for an organization because it appoints a voting majority of the board, but not be financially accountable for the organization because it does not have the ability to impose its will on the organization and there is not a potential financial benefit or burden relationship?

A—Yes. The organization would be classified as a related organization. (See Question .716-2 in Section 2600 for further discussion of related organizations.)

For example, a port authority was established by the city for the purpose of stimulating commerce and promoting the shipment of goods and cargoes. Its governing board consists of five members appointed by the mayor of the city; however, the city does not appoint the port authority’s management. The board members may not be removed except for cause. The port authority determines its budget, issues bonded debt, levies taxes, and sets its rates without the approval of the city. The port authority does not provide a financial benefit, nor does it impose a financial burden on the city. Because the city is unable to impose its will on the authority and there is no financial burden or benefit relationship between the city and the authority, the port authority is not a component unit of the city. However, because the city appoints the voting majority of the authority’s board, the port authority should be disclosed as a related organization.

[GASBIG 2015-1, Q4.17.2]

.712-4 Q—Are appointments made by appointed primary government officials the same as if the appointments were made by elected primary government officials?

A—Yes. This section does not require that appointments be made by elected officials. In fact, paragraph .122 of this section refers to the “primary government’s officials or appointees.”

[GASBIG 2015-1, Q4.18.2]

.712-5 Q—Are appointments made by a single elected or appointed official, without concurrence of the entire governing body, considered to be primary government appointments?

A—Yes. The primary government is accountable for all appointments made by its elected or appointed officials in the course of their official duties.

[GASBIG 2015-1, Q4.18.3]

.712-6 Q—A potential component unit’s charter requires that five of the seven members of its governing board be appointed by the city council from among the council members. Does this majority representation on the potential component unit’s governing board automatically constitute imposition of will by the city?

A—No. That fact alone does not unequivocally indicate that the primary government has the ability to impose its will on the potential component unit. Those individuals that make up the voting majority of the potential component unit’s governing board may not represent the voting majority of the primary government. The criteria in paragraph .125 of this section should be applied to determine whether the city has the ability to impose its will.

[GASBIG 2015-1, Q4.18.6]

.712-7 Q—A legally separate authority has a governing board. In order for the “voting majority” criterion (paragraph .120 of this section) to be met, is the primary government required to *directly* appoint the voting majority?

A—No. It is not necessary for the primary government to directly appoint a voting majority. Paragraph .120 notes that “accountability flows from the notion that individuals are obliged to account for their acts, including the acts of the officials they appoint to operate governmental agencies.” This accountability would include appointments made by the officials of component

units, related organizations, and other primary government appointees. For example, the governing board of a legally separate authority consists of:

- The mayor of City A (the county seat).
- The mayor of City B (another municipality in the county).
- A member appointed by the county board.
- A member appointed by the parks and recreation board. (The parks and recreation board is a seven-member body appointed by the county board.)
- The chairman of the county board.
- Two members appointed by a majority vote of the other five.

The chairman of the county board and the member appointed by the county board are clearly direct appointees of the county. (Note that footnote 5 of this section states that “appointment” includes officials serving as required by law.) Because the parks and recreation board is appointed by the county board, its appointee is, in substance, also an appointee of the county. Further, because these three county appointees represent a voting majority of the five members who select the final two authority board members, those final two appointees also, in substance, result from county appointments. Only the two mayors are *not* directly or indirectly county appointees. Thus, for purposes of determining financial accountability, the county appoints five of the seven members of the authority’s board.

The conclusion is different, however, if the parks and recreation commission is included as a component unit of the county because it is both fiscally dependent on the county and there is a potential for it to provide specific financial benefits to, or impose specific financial burden on, the county and its board is *not* appointed by the county. Under those conditions, there is no unbroken line of appointment between the county board and the appointees of the parks and recreation board. Thus, only the county board chairman and the member directly appointed by the county board would qualify as county appointees.

[GASBIG 2015-1, Q4.18.8, as amended by GASBS 97, ¶4]

.712-8 Q—If the board of a primary government’s component unit appoints a voting majority of the members of another organization’s governing body and is able to impose its will on that organization, is that organization a component unit of the primary government?

A—No. The other organization is not a component unit of the primary government, *per se*; however, the effect on the reporting entity's financial statements would be the same based on the "bottom-up" application in paragraph .144 of this section.

[GASBIG 2015-1, Q4.18.9]

.712-9 Q—A local government provides defined benefit pensions to its employees through a pension plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5. The plan is governed by a five-member board. The local government appointed the initial plan member representatives, whose terms expired sequentially over the first five years, to the pension plan board. Successor pension plan board members were elected by the retired and active plan members. The pension plan board is the trustee for the assets in the plan and approves all decisions related to the investment of the assets in the plan. The local government cannot unilaterally abolish the plan. The local government has determined that the fiscal dependency criteria in paragraph .115 of this section are not met. Therefore, the characteristics of financial accountability in paragraph .120b of this section are not present. Is the local government financially accountable for the plan under the requirements in paragraph .120a of this section?

A—No. The plan does not meet the criteria for financial accountability in paragraph .120a of this section because it does not appoint a voting majority of the organization's governing body, as discussed in paragraphs .121–.123 of this section. Specifically, the local government appointed the initial pension plan board with no continuing appointment authority, and the local government does not have the unilateral ability to abolish the pension plan.

[GASBIG 2019-2, Q4.4]

.713 Appointment of a Voting Majority

See Question .712-8 in this section.

.713-1 Q—What constitutes appointment of a voting majority?

A—A primary government appoints a voting majority of the governing board of an organization if the action of its appointees alone can control decisions of the organization. (See footnote 15 of this section for discussion of appointments.) Furthermore, paragraph .124 of this section provides that, for purposes of determining whether a primary government is financially accountable, the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board.

[GASBIG 2015-1, Q4.18.1, as amended by GASBS 97, ¶4]

.713-2 Q—Is a primary government that creates an organization (or appoints the initial board) accountable for that organization?

A—Paragraph .123 of this section states that a primary government that creates an organization, or initially appoints the governing body of the organization (creation is tantamount to the initial appointment of the governing body), is accountable for the organization if (a) it has continuing appointment authority or (b) the primary government can unilaterally abolish the organization.

[GASBIG 2015-1, Q4.18.4]

.713-3 Q—A potential component unit's articles of incorporation designate certain primary government officials to be potential component unit board members, and these members represent a voting majority of the potential component unit board. Does this constitute appointment of a voting majority?

A—Yes. Footnote 5 of this section states that appointment of a voting majority “includes situations in which a voting majority of an organization's governing body consists of the primary government's officials *serving as required by law* (and, thus, technically not *appointed* by the primary government).”

For example, a housing authority has five board members, three of which are designated by the articles of incorporation to be the mayor, the city manager, and the city's economic development director. This would constitute appointment by the city of a voting majority of the housing authority's board.

[GASBIG 2015-1, Q4.18.5]

.713-4 Q—If a potential component unit's articles of incorporation require its board to appoint new board members from the primary government's employees, would that be considered the same as if the board was appointed by the primary government?

A—In general, the requirement that the board be chosen from the employees of the primary government would not be the same as if the primary government made the appointment, as long as the employees are not serving on the board as representatives of the primary government. For example, if an organization is required to choose its governing body from its membership and employment by the primary government is a requirement for membership in the organization, this would not be the same as the primary government's appointing the board of the organization. Although it would be true that the employee/board member could be terminated by the primary government, that ability relates to the employment relationship between the primary government and the board member, rather than the position of the

employee on the potential component unit board. However, professional judgment should be exercised based on the specifics of each case. For instance, if the articles of incorporation indicate that employees in specific jobs are required to serve (ex officio) on the board of the potential component unit, those board positions would be considered appointments of the primary government.

[GASBIG 2015-1, Q4.18.7]

.713-5 Q—A pension or OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, does not have a governing board. Instead, another government (for example, a sponsoring government) performs the duties that a governing board typically would perform (for example, the government determines or amends the structure of the plan [vesting requirements and required contributions]). If that other government (for example, a sponsoring government) is legally obligated to make contributions to the pension or OPEB plan, should the plan be included as a fiduciary component unit of that other government?

A—Yes. In accordance with paragraph .120a of this section, a government is financially accountable for a legally separate organization if it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the government. For purposes of that paragraph, a government (for example, a sponsoring government) that performs the duties of a governing board in the absence of one should be considered equivalent to a governing board for which the government appoints a voting majority. Furthermore, in accordance with paragraph .130 of Section 1300, a government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to the pension or OPEB plan. As a result, the plan should be included as a fiduciary component unit of the other government (for example, a sponsoring government).

[GASBIG 2019-2, Q4.5, as amended by GASBS 97, ¶4 and ¶5]

.713-6 Q—The authority to appoint the board members of a potential component unit formally rests with an elected official of the city (the primary government) but is delegated to an elected official of the state. Would the city be accountable for this organization?

A—Yes. Delegation of appointment authority would not relieve the elected official of responsibility for the appointments. The city official would be accountable for appointments to the board of the potential component unit whether that official makes the appointment directly or delegates the appointment authority to someone else.

[GASBIG 2015-1, Q4.18.10]

.713-7 Q—A housing authority is the general partner of a limited tax credit partnership (a legally separate entity). The limited partners are nongovernmental organizations and have limited rights regarding the operation of the partnership, and the housing authority possesses essentially all authority over day-to-day operations. Should the housing authority be considered to have appointed a voting majority of the partnership's board?

A—Yes. The board of the housing authority is acting as the general partner of the limited tax credit partnership, which is tantamount to the housing authority appointing a voting majority of the board of the partnership.

[GASBIG 2015-1, Q4.18.11, as amended by GASBS 90, ¶7]

.713-8 Q—What is a substantive appointment?

A—A substantive appointment is not based on *ceremony* or *formality*. Generally, a substantive appointment is a selection that is not significantly encumbered by a limited field of preselected candidates. Professional judgment

should be used to determine whether the role of the primary government is substantive based on all of the relevant information available about the appointment process.

[GASBIG 2015-1, Q4.19.1]

.713-9 Q—A state official appoints board members for an organization from a list of nominees provided by various groups or entities. However, the official has the authority to reject the entire list, with no limit on the number of lists that can be rejected. Is this a substantive appointment?

A—Yes. Paragraph .122 of this section states that “a primary government’s appointment authority is not substantive if the number of candidates is *severely limited* by the nominating process, for example, if a primary government must select three appointees from a *single slate* of five candidates” (emphasis added). If the appointing official may reject all nominees, the process would not limit the primary government’s appointment authority and its authority would be considered substantive. This section does not specify the number of nominees that could be rejected before the appointment would be considered substantive.

[GASBIG 2015-1, Q4.19.2]

.713-10 Q—What is meant by the authority to “abolish” an organization?

A—A primary government has the authority to abolish an organization if it can cause the organization to cease operations, as constituted. A primary government’s authority to abolish an organization would exist even if the legal structure or shell of the organization remained intact.

[GASBIG 2015-1, Q4.20.2]

.714 Imposition of Will¹⁶

.714-1 Q—What is the difference between fiscal dependency and the ability to impose will?

A—The financial accountability of a primary government for another organization flows either from (a) the organization’s fiscal dependency on the primary government or (b) the primary government’s appointment of a voting majority of the governing board of the organization. The fiscal dependency criteria in paragraph .115 of this section relate to special-purpose

¹⁶ The imposition-of-will criteria apply only if the primary government appoints a voting majority of a potential component unit’s governing body. (See Question .712-2 in this section.) [GASBIG 2015-1, fn6]

governments with governing boards that are not appointed by the primary government. These criteria focus on the basic actions necessary for an organization to function as an autonomous government. If a special-purpose government is required to rely on another government to carry out any one of the responsibilities included in these criteria, it is not fiscally independent and is not able to function with autonomy. This would be true regardless of how the governing body of the organization is determined. In those cases, if there also is a financial benefit or burden relationship present, the special-purpose government would be included as a part of the reporting entity of the government that holds those powers.

The ability to impose will plays a different role in the determination of whether a primary government is financially accountable for an organization. Imposition of will was added as a means of determining whether the appointment authority granted to the primary government would result in financial accountability. Therefore, imposition of will creates financial accountability only when coupled with the authority to appoint a voting majority of the potential component unit's governing board. (See Questions .712-2-.712-9, .713-1-.713-10, .714-3-.714-9, and .715-1-.715-15 in this section for further discussion of financial accountability.)

[GASBIG 2015-1, Q4.9.6, as amended by GASBS 97, ¶4 and ¶5 and GASBIG 2019-2, Q4.4, Q4.5, and Q4.7]

.714-2 Q—A potential component unit's charter requires that five of the seven members of its governing board be appointed by the city council from among the council members. Does this majority representation on the potential component unit's governing board automatically constitute imposition of will by the city?

A—No. That fact alone does not unequivocally indicate that the primary government has the ability to impose its will on the potential component unit. Those individuals that make up the voting majority of the potential component unit's governing board may not represent the voting majority of the primary government. The criteria in paragraph .125 of this section should be applied to determine whether the city has the ability to impose its will.

[GASBIG 2015-1, Q4.18.6]

.714-3 Q—What conditions indicate that a primary government has the ability to impose its will on a potential component unit?

A—Imposition of will relates to a primary government's ability to influence the day-to-day operations of a potential component unit. Paragraph .125 of this section states that:

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. The existence of any one of the following conditions clearly indicates that a primary government has the ability to impose its will on an organization:

- a. The ability to remove appointed members of the organization's governing board at will.
- b. The ability to modify or approve the budget of the organization.
- c. The ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases.
- d. The ability to veto, overrule, or modify the decisions (other than those in b and c) of the organization's governing body.
- e. The ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization.

Other conditions may also indicate that a primary government has the ability to impose its will on an organization. In determining whether imposition of will exists, a distinction should be made between substantive approvals and ministerial (or compliance) approvals....

For example, if the primary government has the ability to impose budget amendments to the budget of a special-purpose government that submits its operating budget to the primary government for approval, the primary government would have the ability to impose its will on the special-purpose government. The ability to impose will is not contingent upon previous demonstration of that ability. Even though the primary government may not have imposed a budget amendment in the past, its ability to do so constitutes imposition of will.

See Questions .716-1 and .716-2 in this section for discussion of substantive approvals.

[GASBIG 2015-1, Q4.20.1]

- .714-4 Q—Does the ability to abolish organizations provided to a state government through “sunset legislation” constitute the ability to impose will?

A—"Sunset legislation," which requires the state, at scheduled intervals, to evaluate the viability of organizations to determine if those organizations should continue to remain in operation, generally does not give the state the ability to impose its will, as defined in this section. In these situations, the state legislature's ability to terminate agencies, programs, or organizations generally involves a formal system of due process. The ability to *unilaterally abolish* is comparable to the ability to remove an appointed board member *at will*, whereas the *sunset review process* can be compared to removal *for cause*. The former ability is a manifestation of the ability to impose will; the latter is not.

[GASBIG 2015-1, Q4.20.3]

.714-5 Q—Does the fact that a primary government appoints a voting majority of an organization's governing board mean that the primary government is also able to impose its will on the organization through this voting majority?

A—Normally, the appointment of a voting majority is accompanied by conditions or circumstances that result in the appointing government's having the ability to impose its will on an organization. However, as discussed in paragraph .124 of this section, there are circumstances in which the primary government has little influence over the organization's operations based on the provisions of law or contract. For that reason, it is necessary to determine whether the primary government has the ability to impose its will on the potential component unit using the criteria in paragraph .125 of this section. For example, the state governor appoints the local board of civil service commissioners but has no other authority over the board. Therefore, the state does not have the ability to impose its will on the organization. (See Question .714-3 in this section for further discussion of the criteria.)

[GASBIG 2015-1, Q4.20.4]

.714-6 Q—By statute, a primary government is required to approve any additions or changes to the potential component unit's facilities. The potential component unit has been in the same facilities for many years and is expected to stay there indefinitely. Does this approval authority give the primary government the ability to impose its will on the potential component unit?

A—Paragraph .125 of this section states that "a primary government has the ability to impose its will on an organization if it can significantly influence the . . . level of services performed or provided by the organization . . ." (italics omitted). If the primary government has the authority to prohibit the organization from moving to another facility and the primary government controls all changes to the facilities, the primary government would have

the ability to significantly influence the level of services provided. However, if the organization is free to move to another facility at will, the primary government's influence is no different from that of a landlord and would not constitute the ability to impose its will on the organization.

[GASBIG 2015-1, Q4.20.5]

.714-7 Q—A primary government may remove members of the governing board of the potential component unit “for cause.” Does this right mean that the primary government may impose its will on the potential component unit?

A—No. Removal “for cause” does not mean “at will” because the need to establish “cause” implies that the primary government does not have the ability to impose its will. However, professional judgment should be used to determine whether the restriction is substantive. For example, removal for “inefficiency” could be considered imposing its will, whereas a requirement for due process (public hearings, listing of cause) would generally mitigate the notion that the appointing official has the ability to remove board members at will.

[GASBIG 2015-1, Q4.20.6]

.714-8 Q—A city council levies an excise tax on lodging that is required by statute to be spent solely to make contributions to a not-for-profit convention and visitors center operating within the city. Does the city's tax levy authority represent imposition of will?

A—Using the criterion in paragraph .125c of this section (see Question .714-3 in this section), the answer would depend on whether the city has the authority to determine the rate of the excise tax or to “approve” the tax. If the city has the authority to do either, it has the ability to impose its will on the potential component unit.

[GASBIG 2015-1, Q4.20.7]

.714-9 Q—A primary government is the principal user of a potential component unit's services. However, the transactions between the primary government and the potential component unit do not meet the financial benefit/burden criteria. Would this be equivalent to the primary government's being able to impose its will on the potential component unit?

A—Dependence on the primary government's continued purchase of services does not necessarily indicate that a primary government has the ability to impose its will. This situation may indicate that the potential component unit may be reliant on the primary government to purchase its services,

but may not result in the primary government's having the ability to impose its will, as defined by paragraph .125 of this section. (See Question .714-3 in this section.) Essentially, this would be the same as the primary government's being the main resource provider for an organization. (See Question .708-2 in this section for additional discussion of reliance on financing.)

[GASBIG 2015-1, Q4.20.8]

.715 Financial Benefit to or Burden on a Primary Government

.715-1 Q—What constitutes financial benefit to a primary government?

A—An organization can provide financial benefit to a primary government in a number of different ways. Paragraph .126 of this section states that financial benefit “may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit.” Specifically, that paragraph states that an organization has a financial benefit relationship with the primary government if “the primary government is legally entitled to or can otherwise access the organization’s resources.” Exchange transactions between organizations and the primary government do not indicate a financial benefit relationship.

For example, a gaming enterprise that shares its revenues with the primary government would be considered to have a financial benefit relationship.

[GASBIG 2015-1, Q4.21.1]

.715-2 Q—What is an exchange transaction?

A—Paragraph .126 of this section defines exchange transactions as transactions in which each participant directly receives and sacrifices value. For example, a purchase or sale of goods or services is an exchange transaction. The intent of paragraph .126 is to exclude from the possible manifestations of financial benefit and burden transactions between a primary government and a component unit in the ordinary course of business—that is, purchases of goods and services. (See Questions .715-4, .715-5, .715-13, and .715-14 in this section for further discussion of exchange transactions.)

[GASBIG 2015-1, Q4.21.2]

.715-3 Q—Are “exchange-like” transactions also not considered manifestations of a financial benefit or burden relationship? Paragraph .126 of this section discusses only *exchange* transactions.

A—Yes. As explained in paragraph .503 of Section N50, “Nonexchange Transactions,” the exchange characteristics of an exchange-like transaction are equivalent to an exchange transaction for purposes of applying paragraph .126.

[GASBIG 2015-1, Q4.21.3]

.715-4 Q—Legislation authorizes a city to impose a payment in lieu of taxes on various special-purpose governments “to recover the cost of providing governmental services to public entities that operate as private enterprises and are exempt from property taxes.” Would this legislation mean that the city has the ability to access the municipal corporations’ resources?

A—Paragraph .129 of this section discusses payments in lieu of taxes and states that they are evidence of a financial benefit:

Resources may flow from a component unit to a primary government for several reasons. Some organizations may operate activities, such as off-track betting or lotteries, for the principal purpose of generating net revenues that are accessible to the primary government. These organizations provide financial benefits to the primary government. Other organizations may operate activities (for example, public utilities) for the purpose of providing basic public services and charge rates sufficiently high to also provide a financial benefit to the primary government. These benefits may be characterized as “payments in lieu of taxes” or “contributions,” or they may simply be amounts remitted on request of the primary government. These organizations also provide financial benefits to the primary government.

These inflows are not “taxes.” They are generally subsidies and, in those cases, should be classified as a financial benefit. However, payments that are directly related to the cost of specific governmental services provided by the city may be viewed as exchange transactions. For example, if the city provides water to the potential component unit and requires that the potential component unit make payments “in lieu of taxes” approximately equal to the costs of providing water service, it would be an exchange transaction. Payments that cannot be directly attributed to service provided, however, would be deemed a financial benefit to the city.

[GASBIG 2015-1, Q4.21.4]

.715-5 Q—If a public power authority (a potential component unit) provides electricity to the city (the primary government) at no charge, or at rates that are substantially less than rates charged to other users, is the authority providing a financial benefit to the city?

A—Yes. As indicated in the previous question, if the charge to the city is approximately equal to the cost of providing electricity, it is an exchange transaction. If the value received or sacrificed is disproportionate, it should be considered evidence of a financial benefit/burden relationship.

[GASBIG 2015-1, Q4.21.5]

.715-6 Q—What constitutes financial burden on a primary government?

A—An organization can impose a financial burden on a primary government in a number of different ways. Paragraph .126 of this section states, in part, that financial burden “may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit.” Specifically, that paragraph states that an organization has a financial burden relationship with the primary government if:

- The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization, or
- The primary government is obligated in some manner for the debt of the organization.
- The primary government is legally obligated or has otherwise assumed the obligation to make contributions to an organization that is a defined benefit pension plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5 or a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Po50.

For example, in an effort to increase the availability and affordability of recreation facilities, a county government provides financial support to a park district, as user charges are insufficient to finance operations. If the county government provides the organization with financial support, such as periodic grants or annual appropriations, a financial burden relationship exists.

[GASBIG 2015-1, Q4.22.1, as amended by GASBS 84, ¶7 and GASBS 97, ¶5]

.715-7 Q—Would a legally separate authority impose a financial burden on a primary government if the primary government makes recurring subsidies (for example, providing cash payments for operations or contributing capital assets) to the authority even though there is no requirement that the primary government continue to provide those subsidies?

A—If a primary government establishes a pattern of subsidies to the authority that could reasonably be interpreted as providing financial

support, it would indicate the existence of a financial burden as described in paragraph .130a of this section. Professional judgment would be necessary to determine whether such a pattern exists.

.715-8 Q—[GASBIG 2019-2, ¶10.4.2.2] Enabling legislation, a city established a defined benefit pension plan through which the city provides pensions to its employees. The pension plan is administered through a trust that meets the criteria in paragraph .101 of Section Pe5. Five of the seven members of the pension plan board are appointed by the city council, and two members are elected by the plan members. A provision in the enabling legislation imposes an obligation on the city to make contributions to the plan. The city has determined that it is not able to impose its will on the plan. Because the trust meets the criteria in paragraph .101 of Section Pe5, the city cannot access the resources of the plan. Furthermore, the city is not obligated in any manner for the debt of the plan. Should the plan be included as a component unit of the city?

A—Yes. Paragraph .130 of Section 1300 provides that a legal obligation or the assumption of an obligation to make contributions to a defined benefit pension plan constitutes a financial burden. The statutory obligation for the city to contribute to the plan meets the criterion in paragraph .127b of this section. Because the government also appoints a majority of the plan's governing board, the government is financially accountable for the plan.

[GASBIG 2019-2, Q4.7, as amended by GASBS 97, ¶5]

.715-9 Q—What effect would a formal agreement that establishes a temporary financial burden relationship have on the definition of the reporting entity?

A—This section does not require a legally binding financial burden relationship for a potential component unit to meet the criteria for inclusion in the reporting entity, but only the *potential* for an organization to impose financial burdens on the primary government. For example, in the discussion of financial burden as a result of a primary government's obligation in some manner for the debt of an organization, paragraph .132g of this section states that financial burden exists when "previous actions by the primary government related to actual or potential defaults on another organization's debt make it *probable* that the primary government will assume responsibility for the debt in the event of default." The fact that the primary government has entered into an agreement that creates a financial burden may indicate that it would do so again in the future, which would create the potential for financial

burden and meet the criteria for inclusion. Professional judgment should be used to determine whether the facts in a given situation manifest financial accountability.

[GASBIG 2015-1, Q4.22.3]

.715-10 Q—What determines whether a primary government is “obligated in some manner for the debt of an organization”?

A—Paragraph .132 of this section states that “...a primary government is obligated in some manner for the debt of an organization if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) it *may* take certain actions to assume secondary liability for all or part of the debt, *and* the government takes, or has given indications that it will take, those actions..” (emphasis added). A list of conditions that would indicate that a primary government is obligated in some manner is included in that paragraph.

- a. The primary government is *legally obligated* to honor deficiencies to the extent that proceeds from other default remedies are insufficient.
- b. The primary government is *required* to temporarily cover deficiencies with its own resources until funds from the primary repayment source or other default remedies are available.
- c. The primary government is *required* to provide funding for reserves maintained by the debtor organization or to establish its own reserve or guarantee fund for the debt.
- d. The primary government is *authorized* to provide funding for reserves maintained by the debtor organization or to establish its own reserve or guarantee fund *and* the primary government *establishes* such a fund. (If a fund is not established, the considerations in paragraphs .132f and .132g may nevertheless provide evidence that the primary government is obligated in some manner.)
- e. The primary government is *authorized* to provide financing for a fund maintained by the debtor organization for the purpose of purchasing or redeeming the organization’s debt, or to establish a similar fund of its own, *and* the primary government *establishes* such a fund. (If a fund is not established, the considerations in paragraphs .132f and .132g may nevertheless provide evidence that the primary government is obligated in some manner.)
- f. The debtor government explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default the primary government *may* cover deficiencies although it has no legal obligation to do so. That is, the bond offering statement may specifically refer to a

law that authorizes the primary government to include an appropriation in its budget to provide funds, if necessary, to honor the debt of the organization.

- g. Legal decisions within the state or previous actions by the primary government related to actual or potential defaults on another organization's debt make it *probable* that the primary government will assume responsibility for the debt in the event of default.

For example, a county is obligated for the debt of a finance authority when the finance authority's bond agreement or offering statement indicates that, in addition to the finance authority's primary revenue stream, a revenue stream of the county is secondarily pledged to retire the debt.

[GASBIG 2015-1, Q4.22.4]

- .715-11 Q—Would a primary government's guarantee (legal obligation) of a potential component unit's debt create a financial burden on the primary government even if it is highly improbable that the potential component unit will default on the debt?

A—Yes. The financial burden relationship is based on the *potential* for an organization to impose specific financial burdens on the primary government. If the primary government is legally obligated to assume responsibility for the debt of the potential component unit in the event of a default, a financial burden relationship exists between the primary government and the potential component unit.

[GASBIG 2015-1, Q4.22.5]

- .715-12 Q—A potential component unit is authorized to issue debt in its own name. However, to obtain better interest rates, the primary government issues its own general obligation bonds for the potential component unit. Amounts equal to the debt service requirements will be paid to the primary government by the potential component unit. Does the debt create a financial benefit/ burden relationship between the primary government and the potential component unit?

A—Yes. The primary government would be legally obligated for the debt, regardless of any repayment arrangements between the primary government and the potential component unit. Therefore, there would be a financial benefit/burden relationship between the primary government and the potential component unit.

[GASBIG 2015-1, Q4.22.6]

.715-13 Q—If a city (the primary government) purchases water from a water utility (a potential component unit) at rates that are several times higher than the normal usage charge, is this an exchange transaction?

A—No. Exchange transactions do not result in a benefit or burden to either party—thus, there is a presumption of “arm’s length.” If the value received or sacrificed is disproportionate, it should be considered evidence of a financial benefit/burden relationship and should not be treated as an exchange transaction.

[GASBIG 2015-1, Q4.22.7]

.715-14 Q—Are nonexchange transactions (for example, a city provides free services to a public housing authority) evidence of financial burden relationships?

A—Yes. A nonexchange transaction indicates that one party to the transaction is sacrificing something of value and is not receiving equivalent benefits in return. Therefore, if a primary government sacrifices some type of benefit without an equal exchange by the other party to the transaction, it would constitute a financial burden.

[GASBIG 2015-1, Q4.22.8]

.715-15 Q—A city appoints the voting majority of the governing boards of component unit A and potential component unit B. B imposes a financial burden on A, but not on the city. Is B a component unit of the city even though its financial benefit/burden relationship is with A?

A—Yes. Paragraph .127 of this section states:

The effect of the financial benefits or burdens on the primary government can be either direct or indirect. An indirect benefit or burden exists if one or more of the primary government’s component units is entitled to the resources or is obligated for the deficits or debts of the organization. For purposes of this section, a financial benefit or burden relationship exists if the primary government is either directly or indirectly entitled to the resources or is either directly or indirectly obligated for the deficits or debts of an organization.

[GASBIG 2015-1, Q4.22.9]

.716 Financial Accountability Arising from Fiscal Dependency

.716-1 Q—What is substantive approval?

A—A substantive approval provides the approving government with the ability to influence (for example, amend, modify, deny) the matter presented for approval, rather than to review the matter as a routine part of due process. It is authority having *substance*, rather than being based on a *formality*. Professional judgment should be used to determine whether the role of the primary government is substantive based on all of the relevant information available about the approval process.

[GASBIG 2015-1, Q4.9.2]

.716-2 Q—Is the concept of substantive approval a “two-way street”; that is, could a primary government’s de facto political or financial influence on a potential component unit, “in substance,” demonstrate that the potential component unit is fiscally dependent on the primary government?

A—No. The concept of substantive approval in this section does not extend to “in-substance” approvals that might result from political or financial influence. There is no presumption that substantive approval may exist in the absence of explicitly granted authority. (See Question .716-3 in this section for further discussion of political influence.)

[GASBIG 2015-1, Q4.9.3]

.716-3 Q—A potential component unit presents budgets to the primary government’s board for its approval because of the primary government’s political influence, even though there is no requirement that it do so. Any modifications suggested by the board might be made at the discretion of the potential component unit board. Is the potential component unit fiscally dependent on the primary government?

A—No. The voluntary actions of the potential component unit would not create fiscal dependency on the primary government. However, such actions indicate that it may be misleading to exclude the potential component unit from the reporting entity. (See Questions .704-1, .711-4, and .718-1 in this section for further discussion of “misleading to exclude” provisions.)

[GASBIG 2015-1, Q4.10.3]

.716-4 Q—A county provides grant funding to a legally separate local special district. The county requests annual budgets from the district to verify the amount

of funding needed for the grants, and the county commissioners approve these grants as part of the county's appropriations bill. Does this process create fiscal dependency?

A—No. Paragraph .116 of this section states that "...a distinction should be made between substantive approvals and ministerial (or compliance) approvals. Examples of approvals that are likely to be ministerial or compliance oriented in nature rather than substantive are. (b)a requirement for a state agency, such as a department of education, to review a local government's budget in evaluating qualifications for state funding." The county commissioners are performing a "ministerial" function similar to that described in item b and, thus, the district would *not* be fiscally dependent.

[GASBIG 2015-1, Q4.11.2]

- .716-5 Q—A local special district is created by statute as a separate legal entity but is not granted the authority to levy taxes directly. Instead, the district is required to submit its tax levy to the county board. The county board forwards the district's levy, along with its own levy, to the county clerk for certification and extension. The county board does not have the authority to change the district's levy and is not required to review or approve that levy. Does the county's participation in the tax levy process meet the criteria in paragraph .115b of this section?

A—No. Although the county is required to submit the levy on behalf of the special district, it does not have substantive authority over the district's levy.

[GASBIG 2015-1, Q4.11.3]

- .716-6 Q—If a primary government is required by law, as a matter of due process, to pass a "waiver" resolution that cannot be "vetoed" when a potential component unit plans to levy a tax that exceeds the statutory rate limitation, is the potential component unit fiscally dependent on the primary government?

A—No. The authority of the primary government is not to approve or modify the tax levy request, or budget, of the potential component unit, but rather to authorize a "waiver" of the statutory rate limitation because the revenue needs of the potential component unit cannot be met within the existing rate limitation. Thus, the primary government's authority is ministerial or compliance-oriented, and the potential component unit is not fiscally dependent on the primary government.

[GASBIG 2015-1, Q4.11.4]

.716-7 Q—A legally separate organization is required to present its capital budget to the city council, which may declare that it is necessary to levy a property tax to provide funding for projects included in that budget. The capital budget does not require action (for example, review or approval) by the city council. Does the city’s authority to levy taxes to finance the organization’s capital projects create fiscal dependency by the organization?

A—If the tax is levied by the city because the organization is not granted tax-levying powers by its enabling statutes, the action by the city is not an outright manifestation of fiscal dependency. However, if the organization cannot complete an essential fiscal event without substantive approval, the organization would be fiscally dependent on the city—for example, if the taxing power vested with the city is such as to enable the city council to amend, modify, or disapprove the tax levy request.

[GASBIG 2015-1, Q4.11.5]

.716-8 Q—A charter school does not have the constitutional or statutory authority to levy property taxes. Funding is provided by an enrollment-based formula similar to the formula used for public schools in the state. One component of the formula for charter schools is an allocation of the sponsoring school district’s property tax levy, based on a per-student metric. Is that tax levy allocation equivalent to the sponsoring district having the ability to approve the tax levy of the charter school for purposes of evaluating fiscal dependency?

A—No. Paragraph .115 of this section provides that the charter school would be fiscally dependent on the sponsoring school district if the charter school could not levy taxes without the approval of the sponsoring district. However, the charter school has no tax levy of its own that would be subject to the approval of the sponsoring district. Instead, the sponsoring district provides funding for the charter school from its own levy, which places a financial burden on the sponsoring district but is not an indication of fiscal dependency. (See also Question .708-8 in this section about statutory prohibitions and fiscal dependency.)

[GASBIG 2015-1, Q4.11.6]

.717 Potential for Dual Inclusion

.717-1 Q—If an organization meets the criteria to be considered a component unit in more than one reporting entity, should the organization be included “at the lowest level” of legislative authority?

A—Paragraph .138 of this section (and paragraph 102 in the Basis for Conclusions of Statement 14) discusses the potential for dual inclusion. A component unit should be included in only one reporting entity; however, this section does not suggest that the level of government should be the deciding factor. The potential for dual inclusion arises when a potential component unit is fiscally dependent on, and has a financial benefit or burden relationship with, a government that does not appoint a voting majority of its governing board and the potential component unit otherwise meets the criteria for inclusion in another government's reporting entity. In this situation, professional judgment is required to determine whether the significance of the combined fiscal dependency and financial benefit or burden relationship outweighs the financial accountability that results from the board appointment. For example, if the question was whether to include a component unit in a city's or state's financial reporting entity, it may be useful to include the "lowest level" criterion among the factors being considered in making the final decision.

[GASBIG 2015-1, Q4.24.1]

.718 Organizations Included in the Reporting Entity Although the Primary Government Is Not Financially Accountable

.718-1 Q—In evaluating whether it would be misleading to exclude an organization from a reporting entity, pursuant to the provisions of paragraph .142 of this section, should the method of display (blending or discrete presentation) be considered?

A—Paragraph .142 states that determining whether it would be misleading to exclude an organization is a matter of professional judgment, taking into consideration all relevant factors, with the focus generally being on financial relationships. The decision to include or exclude should be based on all pertinent considerations, including the organization's significance in relation to the primary government and the extent to which the organization is financially integrated with the primary government. Because of the differences in the relationships that a primary government has with blended component units versus discretely presented component units, it is more likely that it would be misleading to exclude an organization that would be *blended* than it would be to exclude one that would be *discretely presented*.

[GASBIG 2015-1, Q4.26.2]

.719 Reporting Component Units

.719-1 Q—How are component units reported?

A—Component units are either blended, discretely presented, or included in the fiduciary funds financial statements. The relationship of some component units to the primary government is so close that the component units are reported as though they are part of the primary government, or blended. (See Questions .706-1–.706-18 in Section 2600 for further discussion of blending.) Most component units should be discretely presented, which allows readers to distinguish between the financial data of the component unit and that of the primary government. (See Question .706-2 in Section 2200 and Questions .701-3, .704-2–.704-14, and .705-2–.705-9 in Section 2600 for more discussion of discrete presentation.) Fiduciary component units should be included only in the fund financial statements with the primary government’s fiduciary funds.

[GASBIG 2015-1, Q4.27.1, as amended by GASBS 84, ¶15]

.719-2 Q—Can component units be reported through note disclosure only?

A—No. If an organization meets the criteria to be included as a component unit, it should be presented discretely, blended, or included in the fiduciary funds financial statements. (See Question .719-1 in this section.) If the primary government appoints a voting majority of the board of an organization that does not meet the financial accountability criteria, the primary government’s accountability for that related organization would be reported in the notes to the financial statements in accordance with the applicable provisions of this section. (See Question .716-2 in this section for further discussion of related organizations.)

[GASBIG 2015-1, Q4.27.2]

.720 Reporting Requirements for Financial Reports of Component Units, Joint Ventures, and Jointly Governed Organizations

No questions assigned.

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

Sources: NCGAS 1, GASBS 9, GASBS 10, GASBS 14, GASBS 34, GASBS 37, GASBS 41, GASBS 44, GASBS 46, GASBS 48, GASBS 51, GASBS 54, GASBS 56, GASBS 62, GASBS 63, GASBS 73, GASBS 74, GASBS 84, GASBS XX, GASBIG 2015-1, GASBIG 2016-1, GASBIG 2017-1, GASBIG 2019-2, AICPA SLG 2002

See also: Section 1200, “Generally Accepted Accounting Principles and Legal Compliance”
Section 1800, “Classification and Terminology”
Section 2100, “Defining the Financial Reporting Entity”
Section 2250, “Additional Financial Reporting Considerations”
Section 2300, “Notes to Financial Statements”
Section 2400, “Budgetary Reporting”
Section 2450, “Cash Flows Statements”
Section 2500, “Segment Information”
Section 2600, “Reporting Entity and Component Unit Presentation and Disclosure”
Section 2700, “Supplemental and Special-purpose Reporting”
Section 2800, “Statistical Tables”
Section 2900, “Interim Financial Reporting”

Statement of Principle Annual Financial Reporting

- a. A comprehensive annual financial report should be prepared and published, covering all funds and activities of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity—including introductory section, management’s discussion and analysis (MD&A), basic financial statements, required supplementary information other than MD&A, appropriate combining and individual fund statements, schedules, narrative explanations, and statistical section. The reporting entity is the primary government (including its blended component units) and all discretely presented component units presented in accordance with Section 2100.
- b. The minimum requirements for MD&A, basic financial statements, and required supplementary information other than MD&A are:
 - (1) Management’s discussion and analysis.
 - (2) Basic financial statements. The basic financial statements should include:
 - (a) Government-wide financial statements.
 - (b) Fund financial statements.
 - (c) Notes to the financial statements.

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- (3) Required supplementary information other than MD&A.
- c. As discussed in Section 2100, the financial reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit. The reporting entity's government-wide financial statements should display information about the reporting government as a whole, distinguishing between the total primary government and its discretely presented component units as well as between the primary government's governmental and business-type activities. The reporting entity's fund financial statements should present the primary government's (including its blended component units, which are, in substance, part of the primary government) major funds individually and nonmajor funds in the aggregate. Fiduciary funds, including fiduciary component units, should be reported only in the statements of fiduciary net position and changes in fiduciary netposition.
- d. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions of Section 2100 should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government.

[NCGAS 1, ¶128, as amended by GASBS 14, ¶11, ¶19, ¶43, and ¶65; GASBS 14, ¶12 and ¶66, as amended by GASBS 61, ¶4; GASBS 34, ¶6, ¶14, and ¶15; GASBS 34, ¶13 and ¶125, as amended by GASBS 63, ¶8 and GASBS 84, ¶5; GASBS 44]

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Comprehensive Annual Financial Reports—Overview

.101 Every governmental entity should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR) that encompasses all funds of the primary government (including its blended component units). The CAFR should also encompass all discretely presented component units of the reporting entity. The financial section of the CAFR should contain:

- a. Management's discussion and analysis. (See paragraphs .106–~~.110~~ ~~109~~ below.)
- b. Basic financial statements. (See paragraphs ~~.111–.207~~ ~~110–204~~ below.)
- c. Required supplementary information¹ other than MD&A. (See paragraphs ~~.208–.210~~ ~~205–207~~ below.)
- d. Combining statements for nonmajor funds by fund type of the primary government (including its blended component units). Combining statements should also be presented for the nonmajor discretely presented component units. (See paragraphs ~~.211–.213~~ ~~208–210~~ below.)
- e. Individual fund statements and schedules for the funds of the primary government (including its blended component units). (See paragraphs ~~.208–.211–.214~~ below.)

The CAFR is the governmental entity's official annual report and should also contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data. The purpose of the reporting entity's financial statements is to report the financial position and results of operations of the primary government (including its blended component units) and provide an overview of the discretely presented component units. [NCGAS 1, ¶135 and ¶139, as amended by GASBS 14 and GASBS 34, ¶80 and ¶82; GASBS 14, ¶11, ¶19, ¶44, and ¶50; GASBS 34, ¶6, as amended by GASBS XX, ¶4–¶11, and ¶30–¶32; GASBS 34, ¶15, ¶126, and fn36; GASBS XX, ¶4–¶11, ¶27, ¶29–¶32, and ¶34]

Minimum Requirements for General Purpose External Financial Reporting

.102 The minimum requirements for management's discussion and analysis (MD&A), basic financial statements, and required supplementary information other than MD&A are:

- a. *Management's discussion and analysis.* MD&A, a component of RSI, should introduce the basic financial statements and provide an analytical overview of the government's financial activities. (See paragraphs .106–~~.110~~ ~~109~~.)

¹Required supplementary information consists of schedules, statistical data, and other information that the GASB has determined are an essential part of financial reporting and should be presented with, but are not a part of, the basic financial statements of a governmental entity. [GASBS 10, fn9, as amended by GASBS 34, ¶6]

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b. *Basic financial statements.* The basic financial statements should include:

- (1) *Government-wide financial statements.* The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government² as well as for its component units. Government-wide financial statements should be ~~presented applying prepared using~~ the economic resources measurement focus and the accrual basis of accounting. (See paragraphs ~~.111-.157~~~~110-156~~ and Section 1600, "Basis of Accounting.")
 - (2) *Fund financial statements.* Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds, including fiduciary component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category. (See paragraphs ~~.158-.203~~~~151-179~~ and Section 1600.)
 - (3) *Notes to the financial statements.* (See Section 2300.)
- c. *Required supplementary information other than MD&A.* Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.³ (See Section 1400, "Reporting Capital Assets," paragraphs .118 and .119, and paragraphs ~~.208-.210~~~~205-207~~ of this section.)

[GASBS 34, ¶6, as amended by GASBS 84, ¶5 and GASBS XX, ¶4-¶11, ¶30-¶32, and fn10; GASBS XX, ¶4-¶11, ¶27, ¶29-¶32, and ¶34]

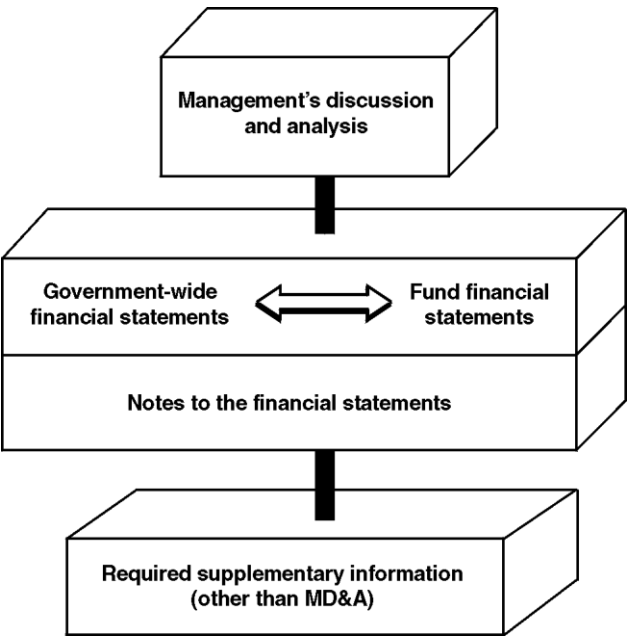
²Unless otherwise noted, the term *primary government* includes the primary government and its blended component units, as defined in Section 2100. [GASBS 34, fn4]

³This paragraph does not modify the provisions of Section Po20, "Public Entity Risk Pools," paragraph .147. [GASBS 34, fn5]

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.103 The following diagram illustrates the minimum requirements for general purpose external financial statements.



[GASBS 34, ¶7]

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.104 The CAFR of a governmental entity should contain management’s discussion and analysis (MD&A), the basic statements indicated below (including notes thereto), required supplementary information (RSI) other than MD&A, and combining and individual fund statements indicated in paragraph .211208, schedules, narrative explanations, and statistical tables.⁴ It should be prepared and published promptly after the close of the fiscal year and should contain the report of the independent auditor, if an audit has been performed, together with a letter(s) of transmittal and such other information as management deems appropriate. Timely and properly presented financial reports are essential to managers, legislative officials, creditors, financial analysts, the general public, and others having need for government financial information. [NCGAS 1, ¶129 and ¶138, as amended by GASBS 14; GASBS 34, ¶16]

⁴The NCGA required more extensive financial reporting than did *Audits of State and Local Governmental Units* (1974). For example, the NCGA recommended that comprehensive annual financial reports include a letter(s) of transmittal, combined and combining statements, and statistical tables. [NCGAS 1, fn22]

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.105 The outline and minimum content of the CAFR of a governmental entity (with references to detailed discussion sections in this Codification) are as follows:

a. Introductory Section

(Table of contents, letter(s) of transmittal, and other material deemed appropriate by management)

b. Financial Section

(1) Auditor's report

(2) Management's discussion and analysis

(3) Basic financial statements

(a) Government-wide financial statements

(i) Statement of net position

(ii) Statement of activities

(b) Fund financial statements⁵

(i) Governmental funds

(a) Short-term financial resources balance sheet

(b) Statement of short-term financial resource flows, revenues, expenditures, and changes in fund balances

(ii) Proprietary funds

(a) Statement of net position

(b) Statement of revenues, expenses, and changes in fund net position

(c) Statement of cash flows

(iii) Fiduciary funds (including fiduciary component units)

(a) Statement of fiduciary net position

(b) Statement of changes in fiduciary net position

(c) Notes to the financial statements

(4) Required supplementary information other than MD&A

(5) Combining statements and individual fund statements and schedules

(a) Combining statements

(i) By fund type—when a primary government (including its blended component units) has more than one internal service fund or more than one nonmajor governmental or enterprise fund—or by type of fiduciary fund (including fiduciary component units)—when a primary government has more than one type of fiduciary fund.

(ii) For discretely presented component units—when the reporting entity has more than one nonmajor component unit. Fund financial statements for individual component units are also required if the information is not available in separately issued financial statements of the individual component unit.

⁵Any interfund and similar eliminations made in the fund or combining financial statements should be apparent from the headings or disclosed in the notes to the financial statements. [NCGAS 1, ¶145, ¶147, and ¶156, as amended by GASBS 34, ¶6]

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- (b) Individual fund statements—when the primary government (including its blended component units) has only one nonmajor fund of a given fund type or if necessary to present prior-year and budgetary comparisons not presented in required supplementary information.
- (c) Schedules
 - (i) Schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.
 - (ii) Schedules to present information spread throughout the statements that can be brought together and shown in greater detail (for example, taxes receivable, including delinquent taxes; long-term debt; investments; and cash receipts, disbursements, and balances).
 - (iii) Schedules to present greater detail for information reported in the statements (for example, additional inflow of resources revenue sources detail and object of outflow of resources expenditure data by departments).

(Narrative explanations useful in understanding combining and individual fund and component unit statements and schedules that are not included in the notes to the financial statements should be presented on divider pages, directly on the statements and schedules, or in a separate section.)

c. Statistical Section

(See Section 2800.)

[NCGAS 1, ¶139, as amended by GASBS 6, ¶25, GASBS 34, ¶80, ¶82, and ¶130, GASBS 63, ¶8, and GASBS 84, ¶14–¶18, and GASBS XX, ¶27; GASBS 14, ¶19 and ¶50; GASBS 34, ¶6, ¶75, ¶78, and ¶96, and fn35, fn36, fn49, and fn50; GASBS 34, ¶12 and ¶106, as amended by GASBS 63, ¶8 and GASBS 84, ¶5; GASBS 34, ¶91, as amended by GASBS 63, ¶18; GASBS XX, ¶11]

Management's Discussion and Analysis (MD&A)

.106 The basic financial statements should be preceded by management's discussion and analysis (MD&A), which is required supplementary information (RSI). MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known⁶ facts, decisions, or conditions. The financial managers of governments are knowledgeable about (a) the transactions and events that are reflected in the government's financial report, (b) the fiscal policies that govern its operations and decision making, and (c) other conditions that may have a significant effect on financial position or results of operations. MD&A provides financial managers with the opportunity to present both short-term and long-term analyses of the government's activities.⁷ MD&A should be written in a manner that can be understood by users who may not have a detailed knowledge of governmental accounting and financial reporting. MD&A also should include explanations and interpretations that help users understand the information provided.
~~The basic financial statements should be preceded by MD&A, which is required supplementary information (RSI). MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known⁶ facts, decisions, or conditions. The financial managers of governments are knowledgeable about the transactions, events, and conditions that are reflected in~~

~~the government's financial report and of the fiscal policies that govern its operations. MD&A provides financial managers with the opportunity to present both a short- and a long-term analysis of the government's activities.~~⁷ [GASBS XX, ¶434, ¶18]

~~⁶ For purposes of MD&A, currently known refers to information that management is aware of as of the date the financial statements are issued. For purposes of MD&A, currently known facts are information that management is aware of as of the date of the auditor's report. [GASBS XX, fn234, fn6]~~

~~⁷ If a letter of transmittal is presented in the introductory section of a comprehensive annual financial report (CAFR), governments are encouraged not to duplicate information contained in MD&A. If a letter of transmittal is presented in the introductory section of a comprehensive annual financial report (CAFR), governments are encouraged not to duplicate information contained in MD&A. [GASBS XX, fn334, fn7]~~

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~~.107 MD&A should discuss the current-year balances and results in comparison with the prior year, with emphasis on the current year. This analysis should be fact based and should discuss the activities that have a positive and negative impact on the government's balances and results in comparison with the prior year. The analysis should assist users in understanding why balances and results reported in the current year's financial statements changed from the prior year rather than just the amounts or percentages by which they changed. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information. MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.~~ [GASBS XX, ¶534, ¶19]

~~.108 The analysis in MD&A should avoid unnecessary duplication. Certain explanations may be relevant to the discussion in multiple sections of MD&A, but those explanations should not be repeated after they have been presented initially. For example, a tax rate increase enacted during the year may affect the results in both the government-wide financial statements and the governmental fund financial statements; after the increase is discussed in the analysis of the government-wide statements (paragraph .110(c)(1)), that discussion should be referenced in the analysis of individual funds (paragraph .110(c)(2)) rather than duplicated unless there is a significant change resulting from the use of a different measurement focus.~~ [GASBS XX, ¶16]

~~.108.109 MD&A should focus on the primary government. Information included in MD&A should distinguish between that of the primary government and its discretely presented component units. Determining whether to discuss matters related to a discretely presented component unit is a matter of professional judgment and should be based on the nature and significance of the individual component unit's relationship to the primary government. When appropriate, the reporting entity's MD&A should refer users to the component unit's separately issued financial statements.~~ MD&A should focus on the primary government. Comments in MD&A should distinguish between information pertaining to the primary government and that of its component units. Determining whether to discuss matters related to a component unit is a matter of professional judgment and 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. When appropriate, the reporting entity's MD&A should refer readers to the component unit's separately issued financial statements. [GASBS XX, ¶734, ¶110]

~~.109.110 MD&A requirements established by this Statement are discussed below in general rather than specific terms to emphasize that financial managers should include the explanations that are most relevant to the information presented each year and should avoid "boilerplate" discussion. The information presented should be confined to the topics discussed in the five sections outlined below.~~⁸ MD&A requirements established by this section are discussed below in general rather than specific terms to encourage financial managers to effectively report only the most relevant information and to avoid "boilerplate" discussion. The information

~~presented should be confined to the topics discussed in a–h below.⁸~~

- a. Introduction. An overview of the basic financial statements, including the relationships of the statements to each other. The overview should focus on the significant differences in the types of information the financial statements provide. Governments also should reference the disclosure of measurement focuses and bases of accounting in the summary of significant accounting policies note, if appropriate. ~~A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.~~
- b. Financial Summary. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. Governments should present the information needed to support their analysis of financial position and results of operations required in subparagraph (c) below, including the following elements, if applicable: ~~Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. Governments should present the information needed to support their analysis of financial position and results of operations required in c below, including the following elements, if relevant:~~
- (1) Total assets, distinguishing between capital and other assets
 - (2) Total deferred outflows of resources
 - (3) Total liabilities, distinguishing between long-term liabilities and other liabilities
 - (4) Total deferred inflows of resources
 - (5) Total net position, distinguishing between the net investment in capital assets, restricted amounts, and unrestricted amounts
 - (6) Program revenues, by major source, distinguishing between charges for services, operating grants and contributions, and capital grants and contributions
 - (7) General revenues, by major source
 - (8) Total revenues
 - (9) Program expenses, at a minimum by function or identifiable activity, as appropriate
 - (10) Total expenses
 - (11) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, transfers, and unusual or infrequent items
 - (12) Contributions to term and permanent endowments or permanent fund principal
 - (13) Transfers
 - (14) Unusual or infrequent items
 - (15) Change in net position
 - ~~(1) Ending net position. Total assets, distinguishing between capital and other assets~~
 - ~~(2) Total deferred outflows of resources~~
 - ~~(3) Total liabilities, distinguishing between long-term liabilities and other liabilities~~
 - ~~(4) Total deferred inflows of resources~~
 - ~~(5) Total net position, distinguishing among the net investment in capital assets; restricted amounts; and unrestricted amounts~~
 - ~~(6) Program revenues, by major source~~
 - ~~(7) General revenues, by major source~~
 - ~~(8) Total revenues~~
 - ~~(9) Program expenses, at a minimum by function~~
 - ~~(10) Total expenses~~

⁸ Governments can provide additional details about the required topics in subparagraphs (a)–(e). Information that does not relate to the required topics should not be included in MD&A but may be provided elsewhere, such as in the letter of transmittal or in other forms of supplementary

information. Governments can provide additional details about the required topics in a-h. Information that does not relate to the required topics should not be included in MD&A, but may be provided elsewhere, such as in the letter of transmittal or in other forms of supplementary information. [GASBS XX, fn 4-37, ¶4]

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- ~~(11) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers~~
- ~~(12) Special Contributions and extraordinary items~~
- ~~(13) Transfers~~
- ~~(14) Change in net position~~
- ~~(15) Ending net position.~~
- c. Detailed Analyses.
 - (1) An analysis of the primary government's financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address significant changes to both governmental activities and business-type activities as reported in the government-wide financial statements. In addition to reporting the amounts or percentages of significant changes, the analysis should explain the reasons for those changes from the prior year and indicate the magnitude of those changes. The analysis also should include facts, decisions, or conditions about which the user may not be aware, with the understanding that not all users may be from the government's geographical area. That analysis should include a discussion of significant policy changes (such as changes in tax rates or fees, or the imposition of a hiring freeze) and important economic factors (such as changes in the tax or employment bases) that significantly affected operating results for the year, as applicable.
 - (2) An analysis of balances and transactions of each major fund and nonmajor funds in the aggregate to assist users in assessing whether fund balances or fund net position have improved or deteriorated as a result of the year's operations. In addition to reporting the amounts or percentages of significant changes, the analysis should explain the reasons for those changes from the prior year and indicate the magnitude of those changes. The analysis also should include facts, decisions, or conditions about which the user may not be aware. The analysis also should address restrictions, commitments, and assignments that significantly affect the availability of fund resources for future use. As noted in paragraph .108, the analysis of major funds and nonmajor funds in the aggregate should focus on explanations that differ from the analysis already required by paragraph .110c(1) rather than duplicating them.
- e. ~~An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affected operating results for the year should be discussed.~~
- d. ~~An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net position and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.~~

~~e. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.~~

~~d. *Significant Capital Asset and Long-Term Debt Activity.*⁹~~

~~(1) A description of significant capital asset activity during the year, including certain intangible assets.¹⁰ This description should include a discussion of significant additions and disposals of capital assets and changes to commitments made for the acquisition of capital assets. The description should address any significant policy changes and economic factors relevant to the capital asset activity that occurred during the year.~~

~~(2) A description of significant long-term debt, lease, public-private and public-public partnership (PPP), and subscription-based information technology arrangement (SBITA) activity during the year, including a discussion of such agreements entered into, changes in credit ratings, and changes to debt limitations that may affect the financing of planned facilities or services, if any. The description should address any significant policy changes and economic factors relevant to the long-term debt, lease, PPP, and SBITA activity that occurred during the year.~~

~~f. A description of significant capital asset and long-term debt activity⁹ during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.~~

~~g. A discussion by governments that use the modified approach (Section 1400, paragraphs 105–107) to report some or all of their infrastructure assets including:~~

~~(1) Significant changes in the assessed condition of eligible infrastructure assets from previous condition assessments~~

~~(2) How the current assessed condition compares with the condition level the government has established~~

~~(3) Any significant differences from the estimated annual amount to maintain/preserve eligible infrastructure assets compared with the actual amounts spent during the current period.~~

⁹~~P. Paragraphs 117–121 of Section 2300, as amended, require certain disclosures about capital assets and long-term liabilities, including long-term debt and leases. It may be sufficient for purposes of this discussion in MD&A to summarize that information and refer the user to those disclosures for additional details. Paragraphs 117–121 of Section 2300 require certain disclosures about capital assets and long-term debt. It is sufficient for purposes of this discussion in MD&A to summarize that information and refer to it for additional details. [GASBS XX, fn534, fn8] [CASBS.~~

¹⁰~~Intangible assets subject to the provisions of Section 1500, and intangible right-to-use assets subject to the provisions of Sections L20, P90, and S80 are considered capital assets.~~

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e. *Currently Known Facts, Decisions, or Conditions.* A description of currently known¹¹ facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or that are expected to produce significant differences from current period results of operations (revenues, expenses, and other changes in net position).¹² Examples of the types of information that should be included in that description, if applicable, include the following:

- (1) Trends in relevant economic and demographic data, such as changes in population (total or specific age groups), customer base, income levels, building permits, enrollment, and unemployment rates.
- (2) Information about the subsequent year's budget, such as:
 - (a) Changes from the current year in the total amount available for appropriation, referring as needed to information about specific revenue sources (for taxes or fees, for example, changes in tax rates or fee amounts and changes in the economic bases or range of activities, respectively, to which they are applied)
 - (b) Changes from the current year in planned spending, referring as needed to relevant explanatory factors such as inflation; labor contracts; new laws or regulations; and the addition, expansion, elimination, or reduction of programs
 - (c) Expected changes in net position or fund balance.
- (3) Information about actions the government has taken after the end of the reporting period related to postemployment benefit liabilities,¹³ capital asset improvement plans, long-term debt, lease agreements, PPPs, and SBITAs.
- (4) Information related to actions other parties have taken that will affect the government, such as new legislation or regulations imposed on the government.

~~h. A description of currently known facts,¹⁰ decisions, or conditions that are expected to have a significant effect on financial position (net position) or results of operations (revenues, expenses, and other changes in net position).¹¹~~

~~[GASBS XX, ¶8 34, ¶11, as amended by GASBS 63, ¶8; GASBS 37, ¶4 and ¶5; GASBS 63, ¶7 and ¶8]~~

Basic Financial Statements—Government-Wide Statements

~~110.111~~ The government-wide financial statements consist of a statement of net position and a statement of activities. Those statements should:

- a. Report information about the overall government without displaying individual funds or fund types
- b. Exclude information about fiduciary activities, including fiduciary component units (such as certain public employee retirement systems [PERS])
- c. Distinguish between the primary government and its discretely presented component units
- d. Distinguish between governmental activities and business-type activities of the primary government
- e. Measure and report all assets (both financial and capital), deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting.

[GASBS 34, ¶12, as amended by GASBS 63, ¶7 and ¶8 and GASBS 84, ¶5]

Focus of the Government-Wide Financial Statements

~~111.112~~ The statement of net position and the statement of activities should display information about the reporting government as a whole. The statements should include the primary government and its component units, except for fiduciary activities. Fiduciary funds, including fiduciary component units, should be reported only in the statements of fiduciary net position and changes in fiduciary net position. (See paragraphs .200–.203.) [GASBS 34, ¶13, as amended by GASBS 63, ¶8 and GASBS 84, ¶15; GASBS 63, ¶17; GASBS 84, ¶20, ¶23, and ¶24; GASBS 84, ¶22 and ¶25, as amended by GASBS 92, ¶9]

~~112.113~~ The focus of the government-wide financial statements should be on the primary government, as defined in Section 2100. Separate rows and columns should be used to distinguish between the total primary government and its discretely presented component units. A total column should be presented for the primary government. A

¹¹⁰~~S~~ See footnote 6. ~~ee footnote 6.~~ [GASBS XX, fn7–34, fn9]

¹²¹~~G~~ Conditions that are expected to have a significant effect on financial position or that are expected to produce significant differences from current period results of operations, including those that give rise to substantial doubt about a government's ability to continue as a going concern, are described in Section 2250, paragraphs .117–.120. ~~onditions that are expected to have a significant effect on financial position or results of operations include those that give rise to substantial doubt about a government's ability to continue as a going concern, as described in Section 2250, paragraphs .117–.120.~~ [GASBS XX, fn856, ¶19]

¹³ The end of the reporting period for liabilities to employees for benefits provided through a defined benefit postemployment benefit plan is the measurement date. [GASB XX,fn9]

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total column for the entity as a whole may be presented but is not required. Prior-year data may be presented in the government-wide statements but also are not required. [GASBS 34, ¶14]

~~.113.114~~ Separate rows and columns also should be used to distinguish between the governmental and business-type activities¹⁴¹² of the primary government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are usually reported in governmental funds and internal service funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds. [GASBS 34, ¶15]

Reporting Capital Assets

~~.114.115~~ Section 1400 provides guidance on accounting and financial reporting requirements for capital assets, including infrastructure assets.

Required Financial Statements—Statement of Net Position

~~.115.116~~ The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets and liabilities should not be offset except where a right of offset exists. Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. Governments are encouraged to present the statement of net position in a format that displays *assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources equals net position*, although a balance sheet format (assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources plus net position) may be used. The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be added to the total for liabilities to provide subtotals. Regardless of the format used, however, the statement of net position should report the residual amount as *net position*, rather than net assets, proprietary or fiduciary fund balance, or equity. [GASBS 34, ¶30, as amended by GASBS 63, ¶18; GASBS 62, ¶501 and fn232, as amended by GASBS 63, ¶18; GASBS 63, ¶17]

¹⁴¹⁴This paragraph is not intended to require segregation of activities into governmental and proprietary funds beyond what is currently reported by management of the government unless the activity is required to be reported as an enterprise fund, as discussed in Section 1300, “Fund Accounting,” paragraph .109. [GASBS 34, fn10]

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~~116.117~~ Governments are encouraged to present assets and liabilities in order of their relative liquidity.¹⁵¹³ An asset's liquidity should be determined by how readily it is expected to be converted to cash and whether restrictions limit the government's ability to use the resources. A liability's liquidity is based on its maturity, or when cash is expected to be used to liquidate it. The liquidity of an asset or liability may be determined by assessing the average liquidity of the class of assets or liabilities to which it belongs, even though individual balances may be significantly more or less liquid than others in the same class and some items may have both current and long-term elements. Liabilities whose average maturities are greater than one year should be reported in two components—the amount due within one year and the amount due in more than one year. Additional disclosures concerning long-term liabilities are discussed in Section 2300, paragraph .120. [GASBS 34, ¶131]

~~117.118~~ The difference between all other elements in a statement of financial position is net position. Net position should be displayed in three components—*net investment in capital assets*; *restricted* (distinguishing between major categories of restrictions); and *unrestricted*. [GASBS 63, ¶18]

Net Investment in Capital Assets

~~118.119~~ The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation,¹⁶¹⁴ reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount. [GASBS 63, ¶19]

Restricted Component of Net Position

~~119.120~~ The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results

¹⁵¹³ Use of a *classified* statement of net position, which distinguishes between all current and long-term assets and liabilities, is also acceptable. (Paragraphs ~~.174-.192~~~~172-190~~ provide guidance on presenting classified balance sheets, including reporting on restricted assets.) [GASBS 34, fn23, as amended by GASBS 63, ¶18]

¹⁶¹⁴ As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶15]

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in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Net position should be reported as restricted when constraints placed on net position use are either:¹⁷⁴⁵

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling legislation.

Enabling legislation,¹⁸⁴⁶ as the term is used in this section, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) *and* includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The amount of the primary government's net position at the end of the reporting period that are restricted by enabling legislation should be disclosed in the notes to the financial statements. [GASBS 34, ¶34 and GASBS 46, ¶6, as amended by GASBS 63, ¶8; GASBS 63, ¶10]

Determining Legal Enforceability

~~120.121~~ Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable. [GASBS 46, ¶3]

Changes in Circumstances Related to Enabling Legislation

~~121.122~~ If a government passes new enabling legislation that *replaces* the original enabling legislation by establishing new legally enforceable restrictions on the resources

¹⁷⁴⁵Because different measurement focuses and bases of accounting are used in the government-wide statement of net position and in governmental fund statements, amounts reported as *restricted fund balances* in governmental funds may be different from amounts reported as *restricted net position* in the statement of net position. [GASBS 34, fn24, as amended by GASBS 54, ¶8 and GASBS 63, ¶8]

¹⁸⁴⁶Enabling legislation also includes restrictions on asset use established by a governmental utility's own governing board when that utility reports based on Section Re10, "Regulated Operations." [GASBS 34, fn25, as amended by GASBS 62, ¶476–¶500]

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raised by the original enabling legislation, then from that period forward the resources accumulated under the new enabling legislation should be reported as restricted to the purpose specified by the new enabling legislation. Professional judgment should be used to determine if remaining balances accumulated under the original enabling legislation should continue to be reported as restricted for the original purpose, restricted to the purpose specified in the new legislation, or unrestricted. [GASBS 46, ¶4]

~~122.123~~ If resources are used for a purpose other than those stipulated in the enabling legislation or if there is other cause for reconsideration, governments should reevaluate the legal enforceability of the restrictions to determine if the resources should continue to be reported as restricted. If reevaluation results in a determination that a particular restriction is no longer legally enforceable, then from the beginning of that period forward the resources should be reported as unrestricted. If it is determined that the restrictions continue to be legally enforceable, then for the purposes of financial reporting, the restricted net position should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation. [GASBS 46, ¶5, as amended by GASBS 63, ¶8]

~~123.124~~ When permanent endowments, permanent fund principal amounts, or minority interest in a component unit are included, the restricted component of net position should be displayed in two additional components—expendable and nonexpendable. Nonexpendable net position is required to be retained in perpetuity or represents minority interests in component units. [GASBS 34, ¶35, as amended by GASBS 61, ¶12 and GASBS 63, ¶8]

Unrestricted Component of Net Position

~~124.125~~ The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. [GASBS 63, ¶11]

~~125.126~~ In the governmental environment, management often commits or assigns resources to be used for specific purposes, indicating that those amounts are not considered to be available for general operations. In contrast to *restricted* net position, these types of constraints on resources are *internal* and management can remove or modify them. As described in paragraph ~~120.119~~, however, *enabling legislation* established by the reporting government should not be construed as an *internal constraint*. Assignments and commitments should not be reported on the face of the statement of net position. [GASBS 34, ¶37, as amended by GASBS 54, ¶10–¶16 and GASBS 63, ¶8]

Required Financial Statements—Statement of Activities

~~126.127~~ The operations of the reporting government should be presented in a format that reports the *net (expense) revenue* of its individual functions. Net (expense) revenue is

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sometimes referred to as the “net cost” of a function or program and represents the total expenses of the function or program less its program revenues—that is, charges or fees and fines that derive directly from the function or program and grants and contributions that are restricted to the function or program. An objective of using the net (expense) revenue format is to report the relative financial burden of each of the reporting government’s functions on its taxpayers. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. As discussed in paragraph ~~.136-135~~, this notion of burden on the reporting government’s taxpayers is important in determining what is program or general revenue. General revenues, contributions to term and permanent endowments, contributions to permanent fund principal, ~~transfers, special and unusual or infrequent~~ extraordinary items, ~~and transfers~~ should be reported separately after the total net expenses of the government’s functions, ultimately arriving at the “change in net position” for the period. An example of a format that meets these requirements is illustrated in paragraph ~~.143-142-17~~. [GASBS 34, ¶38, as amended by GASBS 63, ¶8 and GASBS XX, ¶10; GASBS 37, ¶11]

~~.127.128~~ At a minimum, the statement of activities should present:

- a. Activities accounted for in governmental funds by function,¹⁸ as discussed in Section 1800, ~~paragraph .133~~ paragraphs ~~.132-137~~, to coincide with the level of detail required in the governmental fund statement of short-term financial resource flows, revenues, expenditures, and changes in fund balances
- b. Activities accounted for in enterprise funds by different identifiable activities.¹⁹

[GASBS 37, ¶10, as amended by GASBS XX, ¶11]

~~.128.129~~ Governments are encouraged to provide data in the statement of activities at a more detailed level if the additional detail provides more useful information without

¹⁹¹⁷ Some governments may modify the standard format of the statement of activities or use an alternative format. See Section Sp20, “Special-Purpose Governments,” paragraph .111. [GASBS 34, fn26]

²⁰¹⁸ The term *function* is used in this section to refer to the minimum level of detail for *both* governmental and business-type activities required to be presented in the statement of activities. [GASBS 34, fn27]

²¹¹⁹ An activity within an enterprise fund is *identifiable* if it has a specific revenue stream and related expenses and gains and losses that are accounted for separately. Determining whether an activity is *different* may require the use of professional judgment, but is generally based on the goods, services, or programs provided by an activity. For example, providing natural gas is different from supplying water or electricity, even though all three are regarded as “utility services.” On the other hand, separate identifiable water districts would not be considered “different” activities, even though they may serve different parts of the government. For higher education institutions reported in enterprise funds, the variety of activities common to those institutions—for example, food service, bookstore, residence halls, and student unions—generally would not be required to be reported separately. One consideration in contrasting the higher education situation with the utility example is the fact that gas, water, and electric utilities each deliver a different product or service. Gas distribution is not part of a water supply system, generation of electricity is not a component of a gas distribution system, and so on. In the higher education setting, the various activities might be considered supplemental or secondary to the delivery of the primary service—higher education. [GASBS 37, ¶10]

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significantly reducing readers' ability to understand the statement. No specific level of detail is appropriate for all governments; some have hundreds of programs and others have only a few. Therefore, reporting in greater detail than the minimum requirements in paragraph .128~~127~~ may be practical for some governments but not for others. [GASBS 34, ¶40, as amended by GASBS 37, ¶10]

Expenses

~~.129.130~~ Governments should report all expenses by function except for those that meet the definitions of usual~~special~~ or infrequent~~extraordinary~~ items, discussed in ~~paragraphs .143 and .144~~. As a minimum, governments should report direct expenses for each function. *Direct* expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. [GASBS 34, ¶41, as amended by GASBS XX, ¶9]

~~.130.131~~ Some functions, such as general government, support services, or administration, include expenses that are, in essence, *indirect* expenses of other functions. Governments are not required to allocate those indirect expenses to other functions. However, some governments may prefer to allocate some indirect expenses or use a full-cost allocation approach²²²⁰ among functions. If indirect expenses are allocated, direct and indirect expenses should be presented in separate columns to enhance comparability of direct expenses between governments that allocate indirect expenses and those that do not. A column totaling direct and indirect expenses may be presented but is not required. [GASBS 34, ¶42]

~~.131.132~~ Some governments 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 overhead charges, but the summary of significant accounting policies should disclose that they are included in direct expenses. [GASBS 34, ¶43]

~~.132.133~~ Depreciation expense for capital assets that can specifically be identified with a function should be included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a facility that houses the police department, the building inspection office, and the water utility office) should be ratably included in the direct expenses of the appropriate functions. Depreciation expense for capital assets such as a city hall or a state office building that essentially serves all functions is not required to be included in the *direct* expenses of the various functions. This depreciation expense may be included as a separate line in the statement of activities or as part of the "general government" (or its counterpart) function (and in either case, may be allocated to other functions as discussed in paragraph .131~~130~~). If a government uses a separate line in the statement of activities to report *unallocated* depreciation expense,

²²²⁰As used in this section, a *full-cost allocation approach* means allocating indirect expenses among functions with the objective of allocating *all* expenses, including certain general government expenses. [GASBS 34, fn28]

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it should clearly indicate on the face of the statement that this line item excludes *direct* depreciation expenses of the various programs. Required disclosures about depreciation expense are discussed in Section 2300, paragraph .118. [GASBS 34, ¶44]

~~.133.~~134 Depreciation expense for general infrastructure assets should not be allocated to the various functions. It should be reported as a direct expense of the function (for example, public works or transportation) that the reporting government normally associates with capital outlays for, and maintenance of, infrastructure assets or as a separate line in the statement of activities. [GASBS 34, ¶45]

~~.134.~~135 *Interest on general long-term liabilities* generally should be considered an indirect expense. However, interest on long-term debt should be *included* in direct expenses in those limited instances when borrowing is essential to the creation or continuing existence of a program and it would be misleading to exclude the interest from direct expenses of that program (for example, a new program that is highly leveraged in its early stages). Excluding the cost of the borrowing when it is necessary to establish or maintain the program would significantly understate its direct program expenses. Most interest on general long-term liabilities, however, does not qualify as a direct expense and should be reported in the statement of activities as a separate line that clearly indicates that it excludes direct interest expenses, if any, reported in other functions. The amount excluded should be disclosed in the notes or presented on the face of the statement. [GASBS 34, ¶46]

Revenues

~~.135.~~136 Programs are financed from essentially four sources:

- a. Those who purchase, use, or directly benefit from the goods or services of the program (This group may extend beyond the boundaries of the reporting government's taxpayers or citizenry or be a subset of it.)
- b. Parties outside the reporting government's citizenry (This group includes other governments and nongovernmental entities or individuals.)
- c. The reporting government's taxpayers (This is all taxpayers, regardless of whether they benefit from a particular program.)
- d. The governmental institution itself (for example, through investing).

For the purposes of the statement of activities:

- Type a is always a program revenue.
- Type b is a program revenue, if restricted to a specific program or programs. If unrestricted, type b is a general revenue.

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- Type c is always a general revenue, even if restricted to a specific program.
- Type d is usually a general revenue.

[GASBS 34, ¶147]

Program revenues

~~136.~~137 Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. The statement of activities should separately report three categories²³²⁴ of program revenues: (a) charges for services, (b) program-specific *operating* grants and contributions, and (c) program-specific *capital* grants and contributions. For identifying the function to which a program revenue pertains, the determining factor for *charges for services* is which function *generates*²⁴²² the revenue. For *grants and contributions*, the determining factor is the function to which the revenues are *restricted*. [GASBS 34, ¶148; GASBS 37, ¶12]

~~137.~~138 *Charges for services* is the term used for a broad category of program revenues that arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services. Revenues in this category include fees charged for specific services, such as water use or garbage collection; licenses and permits, such as dog licenses, liquor licenses, and building permits; operating special assessments, such as for street cleaning or special street lighting; and any other amounts charged to service recipients. Fines and forfeitures are also included in this category because they result from direct charges to those who are otherwise directly affected by a program or service, even though they receive no *benefit*. Payments from other governments for goods or services—for example, when County A reimburses County B for boarding County A's prisoners—also should be reported in this category. [GASBS 37, ¶13]

~~138.~~139 *Program-specific grants and contributions (operating and capital)* include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted²³ for use in a particular program. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes—to purchase, construct, or renovate capital assets

²³²⁴More than one column may be used to display components of a program revenue category. Governments may also provide more-descriptive category headings to better explain the range of program revenues reported therein (for example, *Operating grants, contributions, and restricted interest*). [GASBS 37, ¶12]

²⁴²²In some instances it may be difficult or impractical to identify a specific function that generates a program revenue. For example, in many jurisdictions fines could be attributed to either a public safety or judicial function. If the source of a program revenue is not clear, governments should adopt a classification policy for assigning those revenues and apply it consistently. [GASBS 37, ¶12]

²⁵²³Paragraph ~~120~~119 discusses the meaning of the term *restricted*. [GASBS 34, fn29]

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associated with a specific program. These should be reported separately from grants and contributions that may be used *either* for operating expenses or for capital ~~outlays~~^{expenditures} of the program at the discretion of the reporting government. These categories of program revenue are specifically attributable to a program and reduce the net expense of that program to the reporting government. For example, a state may provide an operating grant to a county sheriff's department for a drug-awareness-and-enforcement program or a capital grant to finance construction of a new jail. Multipurpose grants (those that provide financing for more than one program) should be reported as program revenue if the amounts restricted to each program are specifically identified in either the grant award or the grant application.²⁶²⁴ Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as general revenues. [GASBS 34, ¶50, as amended by GASBS XX, ¶127]

~~.139.140~~ Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a program or programs specifically identified in the endowment or permanent fund agreement or contract. Earnings from endowments or permanent funds that finance "general fund programs" or "general operating expenses," for example, should not be reported as program revenue. Similarly, earnings on investments not held by permanent funds also may be legally restricted to specific functions or programs. For example, interest earnings on state grants may be required to be used to support a specific program. When earnings on the *invested accumulated resources* of a program are *legally restricted* to be used for that program, the net cost to be financed by the government's general revenues is reduced, and those investment earnings should be reported as program revenues. [GASBS 34, ¶51]

General revenues

~~.140.141~~ All revenues are *general revenues* unless they are required to be reported as program revenues, as discussed in paragraphs ~~.137-.140~~¹³⁶⁻¹³⁹. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax—for example, sales tax, property tax, franchise tax, income tax. All other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues. General revenues should be reported after total net expense of the government's functions. [GASBS 34, ¶52]

²⁶²⁴The grant application should be used for this purpose only if the grant award was based on that application. [GASBS 34, fn30]

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Reporting contributions to term and permanent endowments, contributions to permanent fund principal, ~~transfers, special and unusual or infrequent extraordinary items, and transfers~~

~~.141.142~~ Contributions to term and permanent endowments, contributions to permanent fund principal, ~~special and extraordinary items (defined in paragraphs .143 and .144), and transfers (defined in Section 1800, paragraph .102)~~ between governmental and business-type activities (defined in paragraph .102 of Section 1800), and unusual or infrequent items (defined in paragraph .144 of this section) should each be reported separately from, but in the same manner as, general revenues. That is, these sources of financing the net cost of the government's programs should be reported at the bottom of the statement of activities to arrive at the all-inclusive change in net position for the period. [GASBS 34, ¶53, as amended by GASBS 63, ¶8 and GASBS XX, ¶9 and ¶10]]

Statement of Activities Format

142.143 For most governments, the following format provides the most appropriate method²⁷²⁵ for displaying the information required to be reported in the statement of activities:

required to be reported in the statement of activities.

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
			Operating	Capital	Primary Government			
Functions	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary government								
Governmental activities								
Function #1	XXX	XX	X	X	(XX)	—	(XX)	—
Function #2	XXX	XX	X	—	(XX)	—	(XX)	—
Function #3	XXX	XX	X	X	(X)	—	(X)	—
Total governmental activities	XXXX	XXX	XX	XX	(XX)	—	(XX)	Business-type
activities								
BTA #1	XXXX	XXXX	—	X	—	XX	XX	—
BTA #2	XXXXX	XXXX	—	XX	—	XXX	XXX	—
Total business-type activities	XXXXX	XXXX	—	XX	—	XXX	XXX	— Total
primary government	XXXXXX	XXXXX	XX	XXX	(XXX)	XXX	XX	— Component
units								
CU #1	XXXX	XXXX	XX	XX	—	—	XX	
General revenues—detailed					XXX		XXX	
Contributions to permanent funds					XX		XX	
TransferSpecial items					X		X	
Unusual or infrequent itemsTransfers					XX		—	
Total general revenues, contributions, transferspecial items, and unusual or infrequent itemstransfers					XXX		XXX	
Change in net position					X		XX	

[GASBS 34, ¶154, as amended by GASBS 63, ¶18 and GASBS XX, ¶110]

[GASBS 34, ¶154, as amended by GASBS 63, ¶18 and GASBS XX, ¶10]

²⁷²⁵See Section Sp20, paragraph .111. [GASBS 34, fn31]

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Unusual or Infrequent~~Special and Extraordinary~~ Items

~~.144~~

Unusual or infrequent ~~Extraordinary~~ items are transactions ~~and~~ other events that are ~~both~~ unusual in nature ~~or~~ and infrequent in occurrence. Paragraphs ~~.146-.150~~~~145-.149~~ define the terms *unusual in nature* and *infrequency of occurrence*. As discussed in paragraph [GASBS XX, ¶9]

~~.143~~ Governments should present unusual or infrequent items individually as ~~.141~~, extraordinary items should be reported separately at the last presented flow(s) bottom of resources prior to the net change in resource flows in the statement of activities. [GASBS 34, ¶55, as amended by GASBS 62, ¶45-¶49]

~~.144.145~~ Significant transactions or other events ~~within the control of management~~ that are ~~either~~ unusual in nature or infrequent in occurrence are ~~special items~~. Special items ~~should also be reported separately in the statement of activities, before extraordinary items, if any. In addition, governments~~ Governments should disclose in the notes to financial statements ~~the program~~ any significant transactions or function or identifiable activity to which ~~another events that are either~~ unusual or infrequent item is related, if applicable, and whether that item was ~~but not~~ within the control of management. [GASBS XX, ¶1034, ¶56]

~~.145.146~~ Judgment is required to determine which items should be segregated in the flows ~~statement~~²⁸²⁶ for the effects of events or transactions that are ~~unusual~~ special or ~~infrequent~~ extraordinary items. An event or transaction should be presumed to be an ordinary and usual activity of the government, unless the evidence clearly supports its classification as ~~an unusual~~ a special or ~~infrequent~~ extraordinary item as defined in paragraph ~~.147~~~~146~~. [GASBS 62, ¶45, as amended by GASBS XX, ¶9 and ¶10]

~~.146.147~~ Unusual or infrequent ~~Special and extraordinary~~ items are events and transactions that are distinguished either by their unusual nature or by the infrequency of their occurrence, ~~or both~~. The following criteria ~~identify when should be met to classify~~ an event or transaction ~~is~~ as either unusual in nature or infrequent in occurrence:

- a. *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates. (See paragraph ~~.148~~~~147~~.)
- b. *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates. (See paragraph ~~.149~~~~148~~.)

[GASBS 62, ¶46, as amended by GASBS XX, ¶9]

~~.147.148~~ *Unusual Nature*. The specific characteristics of the government, such as type and scope of operations and operating policies, should be considered in

²⁸²⁶Paragraphs .146-.151 apply to accounting and financial reporting for governmental activities, business-type activities, and proprietary funds. Those paragraphs also apply to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds. Therefore, for purposes of applying paragraphs ~~.146-.151~~¹⁴⁵⁻¹⁵⁰, the term *flows statement* includes the government-wide statement of activities; the governmental fund statement of short-term financial resource flows~~revenues, expenditures, and changes in fund balances~~; and the proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 62, ¶13; GASBS 62, fn23, as amended by GASBS 63, ¶18 and GASBS XX, ¶111]

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ordinary and typical activities of the government. The environment in which a government operates is a primary consideration in determining whether an underlying event or transaction is abnormal and significantly different from the ordinary and typical activities of the government. The environment of a government includes such factors as the characteristics of its business-type activities, the geographical location of its operations, and the nature and extent of governmental regulation. Thus, an event or transaction may be unusual in nature for one government but not for another because of differences in their respective environments. Unusual nature is not established by the fact that an event or transaction is beyond the control of management. [GASBS 62, ¶47]

~~.148.149~~ *Infrequency of Occurrence.* For purposes of applying paragraphs ~~.146-.151~~~~145-150~~, an event or transaction of a type not reasonably expected to recur in the foreseeable future is considered to occur infrequently. Determining the probability of recurrence of a particular event or transaction in the foreseeable future should take into account the environment in which a government operates. Accordingly, a specific transaction of one government might meet that criterion, and a similar transaction of another government might not because of different probabilities of recurrence. The past occurrence of an event or transaction for a particular government provides evidence to assess the probability of recurrence of that type of event or transaction in the foreseeable future. [GASBS 62, ¶48]

~~.149.150~~ Certain gains and losses should not be reported as unusual or infrequent~~extraordinary~~ items because they are usual in nature ~~and~~ may be expected to recur as a consequence of customary and continuing operations. Examples include:

- a. Write-down or write-off of receivables, inventories, equipment leased to others, or intangible assets
- b. Gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations
- c. Other gains or losses from sale or abandonment of capital assets used in operations
- d. Effects of a strike, including those against major suppliers
- e. Adjustment of accruals on long-term contracts.

In rare situations, an event or transaction may occur that clearly meets one or both criteria specified in paragraph ~~.147~~~~146~~ and, thus, gives rise to an unusual or infrequent~~extraordinary~~ gain or loss that includes one or more of the gains or losses enumerated above. In these circumstances, gains or losses such as (a) and (c) above, should be reported as an unusual or infrequent~~included in the extraordinary~~ item if they are a direct result of a major casualty (such as an earthquake) or a prohibition under a newly enacted law or regulation that clearly meets one or both criteria specified in paragraph ~~.147~~~~146~~. However, any portion of such losses that would have resulted from a valuation of assets on a going-concern basis should not be reported as an unusual or infrequent item~~included in the extraordinary items~~. [GASBS 62, ¶49, as amended by GASBS XX, ¶9]

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Adjustment of amounts reported in prior periods

~~.150.~~151 Circumstances attendant to ~~unusual~~special or ~~infrequent~~extraordinary items frequently require estimates, for example, of associated costs and occasionally of associated revenue, based on judgment and evaluation of the facts known at the time of first accounting for the event. Each adjustment in the current period of an element of an ~~unusual~~extraordinary or ~~infrequent~~special item that was reported in a prior period should be separately disclosed as to year of origin, nature, and amount and classified separately in the current period in the same manner as the original item. If the adjustment is the correction of an error, the provisions of paragraphs .151 and .152 of Section 2250, "Additional Financial Reporting Considerations," should be applied. [GASBS 62, ¶50, as amended by GASBS XX, ¶9]

Eliminations and Reclassifications

~~.151.~~152 In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. [GASBS 34, ¶57, as amended by GASBS 63, ¶8]

Internal balances—statement of net position

~~.152.~~153 Eliminations should be made in the statement of net position to minimize the "grossing-up" effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, amounts reported in the funds as interfund receivables and payables, or as deferred inflows of resources and deferred outflows of resources resulting from the intra-entity transactions discussed in Section S20, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," paragraph .111, should be eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the statement of net position as receivable from and payable to external parties (consistent with the nature of fiduciary funds), rather than as internal balances. All internal balances should be eliminated in the total primary government column. [GASBS 34, ¶58, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

Internal activities—statement of activities

~~.153.~~154 Eliminations should be made in the statement of activities to remove the "doubling-up" effect of internal service fund activity. The effect of similar internal events (such as allocations of accounting staff salaries) *that are, in effect, allocations of overhead expenses* from one function to another or within the same function also should be eliminated, so that the allocated expenses are reported only by the function to which they were allocated. [GASBS 34, ¶59]

~~.154.~~155 The effect of interfund services provided and used (see Section 1800) between functions—for example, the sale of water or electricity from a utility to the general

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government—should not be eliminated in the statement of activities. To do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. [GASBS 34, ¶60]

Intra-entity activity

~~155.~~156 Resource flows between the primary government and *blended* component units should be reclassified in accordance with the provisions of Section 1800 as internal activity in the financial statements of the reporting entity. Resource flows (except those that affect the statement of financial position only, such as loans, repayments, and deferred inflows of resources and deferred outflows of resources resulting from intra-entity transactions as discussed in Section S20, paragraph .111) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. However, amounts payable and receivable between the primary government and its discretely presented component units or between those components should be reported on a separate line. [GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

Reporting Internal Service Fund Balances

~~156.~~157 Internal service fund asset and liability balances that are not eliminated in the statement of net position should normally be reported in the *governmental* activities column. Although internal service funds are reported as proprietary funds, the activities accounted for in them (the financing of goods and services for other funds of the government) are usually more governmental than business-type in nature. If enterprise funds are the predominant or only participants in an internal service fund, however, the government should report that internal service fund's residual assets, deferred outflows of resources, liabilities, and deferred inflows of resources within the business-type activities column in the statement of net position. [GASBS 34, ¶62, as amended by GASBS 63, ¶7 and ¶8]

Basic Financial Statements—Fund Financial Statements

~~157.~~158 Separate financial statements should be presented for the primary government's governmental and proprietary funds. [GASBS 34, ¶74]

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Focus on Major Funds

~~158.159~~ The focus of governmental and proprietary fund financial statements is on *major funds*.²⁹²⁷ Fund statements should present the financial information of each major fund in a separate column. Nonmajor funds should be aggregated and displayed in a single column.³⁰²⁸ [GASBS 34, ¶75]

~~159.160~~ The reporting government's main operating fund (the general fund or its equivalent) should always be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- a. The total of assets and deferred outflows of resources, the total of liabilities and deferred inflows of resources, inflows of short-term financial resources/revenues, or outflows of short-term financial resources/expenses³¹²⁹ of that individual governmental or enterprise fund are at least 10 percent of the corresponding element(s) total (total assets and deferred outflows of resources, total liabilities and deferred inflows of resources, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), *and*
- b. The same element(s) that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund. [GASBS 34, ¶76, as amended by GASBS 65, ¶33, and GASBS XX, ¶22 and ¶23; GASBS 37, ¶15, as amended by GASBS 65, ¶33]

Required Reconciliation to Government-Wide Statements

~~160.161~~ Governments should present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule. In many cases, brief explanations presented on the face of the statements will be sufficient to allow users to assess the relationship between the statements. However, if aggregated information in the summary reconciliation obscures the nature of the individual elements of a particular reconciling item, governments should provide a more detailed explanation in the notes to financial statements. (See paragraphs .165, .171-164, .169, and .197-195.) [GASBS 34, ¶77]

²⁹²⁷Major fund reporting requirements do not apply to internal service funds. [GASBS 34, fn35]

³⁰²⁸Combining statements for nonmajor funds are not required but may be presented as supplementary information. [GASBS 34, fn36]

³¹²⁹Excluding inflows of short-term financial resources/revenues and outflows of short-term financial resources/expenses reported as unusual or infrequent/extraordinary items. [GASBS 34, fn37, as amended by GASBS XX, ¶9, ¶22, and ¶23]

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Required Financial Statements—Governmental Funds

~~161.162~~ The financial statements required for governmental funds are:

- a. ~~Short-term financial resources balance~~ Balance sheet
- b. Statement of ~~short-term financial resource flows, revenues,~~
~~expenditures, and changes in fund balances.~~ [GASBS ~~XX, ¶1134, ¶178~~]

Short-Term Financial Resources Balance Sheet

~~162.163~~ The ~~short-term financial resources~~ short-term current balance sheet should report information about the ~~short-term~~ current financial resources (assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances) of each major governmental fund and for nonmajor governmental funds in the aggregate. A total column should be presented. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances of governmental funds should be displayed in a balance sheet format (assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources plus fund balance). The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be added to the total for liabilities to provide subtotals. [GASBS 34, ¶83, as amended by GASBS 63, ¶12 and GASBS XX, ¶11 and ¶12; GASBS 63, ¶7]

Displaying fund balance classifications

~~163.164~~ Amounts for the two components of nonspendable fund balance—~~interfund loans receivable and amounts that are—(a) not in spendable form and (b)~~ legally or contractually required to be maintained intact—as described in paragraph .166 of Section 1800, may be presented separately, or nonspendable fund balance may be presented in the aggregate. If nonspendable fund balance is displayed in the aggregate on the face of the short-term financial resources balance sheet, totals for the two nonspendable classifications should be disclosed in the notes to the financial statements. Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate. Similarly, specific purposes information for committed and assigned fund balances may be displayed in sufficient detail so that the major commitments and assignments are evident to the financial statement user, or each classification may be displayed in the aggregate. (See paragraphs .168–.172 of Section 1800.) If restricted, committed, or assigned fund balance classifications are displayed in the aggregate, specific purposes information should be disclosed in the notes to the financial statements. Governments may display the specific purpose details for some classifications on the face of the short-term financial resources balance sheet and disclose the details for other classifications in the notes to the financial statements. [GASBS 54, ¶22, as amended by GASBS XX, ¶12 and ¶26; GASBS 54, ¶25, as amended by GASBS XX, ¶11 and ¶25]

Required reconciliation

~~164.165~~ Paragraph ~~.161160~~ requires governments to present a summary reconciliation at the bottom of the fund financial statements or in an accompanying schedule. Items that

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typically will be required to reconcile total governmental fund balances to net position of governmental activities in the statement of net position include, but are not limited to, the effects of:

- Reporting capital assets at their historical cost and depreciating them instead of reporting capital acquisitions as outflows of resources~~expenditures~~ when incurred
- Adding general long-term liabilities not due and payable in the current period
- ~~Reducing deferred inflows of resources for those amounts that were not available to pay current period expenditures~~
- Adding internal service fund net position balances (see paragraph .157~~156~~).

[GASBS 34, ¶185, as amended by GASBS 63, ¶18, and GASBS 65, ¶31, and GASBS XX, ¶12, ¶24, and ¶27]

Statement of Short-Term Financial Resource Flows~~Revenues, Expenditures, and Changes in Fund Balances~~

~~.165.166~~ The statement of short-term financial resource flows~~revenues, expenditures, and changes in fund balances~~ should report information about the inflows, outflows, and balances of short-term~~current~~ financial resources of each major governmental fund and for the nonmajor governmental funds in the aggregate. A total column should be presented. Governments should present unusual or infrequent items separately as the last presented flow of resources prior to the net change in resource flows in the governmental funds statement of resource flows. The statement should present the following information, in the following format and sequence, using the all-inclusive format indicated:

Inflows of resources from current activities~~Revenues~~ (detailed)
Total inflows of resources from current activities
Outflows of resources from current activities~~Expenditures~~ (detailed)
Total outflows of resources from current activities
Net flows from current activities
Net flows from noncurrent activities~~Excess (deficiency) of revenues over expenditures~~
Other financing sources and uses, including transfers (detailed)
Total net flows from noncurrent activities
Unusual or infrequent~~Special and extraordinary~~ items (detailed)
Net change in fund balances
Fund balances³²³⁰—beginning of
period
Fund balances—end of period

Each caption, subtotal, and total shown in the format above should be presented as applicable. Current activities are all activities other than noncurrent activities. Noncurrent activities are activities related to the acquisition and disposal of capital assets and the issuance and repayment of capital-related liabilities (for example, leases) and long-term debt, except for long-term debt issued for short-term purposes.

[GASBS 34, ¶186, as amended by GASBS XX, ¶11, ¶12, and ¶27; GASBS XX, ¶10 and ¶27]

Classification of inflows of resources and outflows of resources~~revenues and expenditures~~

~~.166.167~~ Governmental fund inflows of resources~~revenues~~ should be classified in the statement of short-term financial resource flows~~revenues, expenditures, and~~

~~changes in fund balances~~ by major ~~revenue~~ source as discussed in ~~Section 1800~~, paragraph .131 of ~~Section 1800~~. Governmental fund ~~outflows of resources~~ expenditures should be classified at a minimum by function, as discussed in paragraphs .132-.137 of that section. Debt issue costs paid out of debt proceeds, such as underwriter fees, should be reported as ~~outflows of resources~~ expenditures. Issue costs, such as attorney and rating agency fees or bond insurance, paid from existing resources should be reported as ~~outflows of resources~~ expenditures when the related liability is incurred. [GASBS 34, ¶187, as amended by GASBS XX, ¶111 and ¶127; GASBS XX, ¶127]

~~3230~~ Fund balances should consist of the classifications described in paragraph .164~~163~~. [GASBS 34, fn38, as amended by GASBS 54, ¶122]

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Noncurrent activities

.168 Noncurrent activities are activities related to the acquisition and disposal of capital assets and the issuance and repayment of capital-related liabilities (for example, leases) and long-term debt, except for long-term debt issued for short-term purposes. [GASBS XX, ¶127]

Other financing sources and uses

~~.167.~~.169 Items that should be reported as inflows and outflows of resources from noncurrent activities ~~other financing sources and uses~~ include the face amount of long-term debt, issuance premium or discount, certain payments to escrow agents for bond refundings, transfers, and sales of capital assets (unless the sale meets the criteria, as defined in paragraph .144, for reporting as an unusual or infrequent ~~special~~ item). [GASBS 34, ¶88, as amended by GASBS 37, ¶16 and GASBS XX, ¶19 and ¶27]

Unusual or infrequent ~~Special and extraordinary~~ items

~~.168.~~.170 ~~Special and extraordinary~~ Unusual or infrequent items, defined in paragraph ~~paragraphs .143 and .144~~, should be reported separately after “~~net flows from noncurrent activities.~~” other financing sources and uses.” If more than one ~~occurs both occur~~ during the same period, unusual or infrequent ~~special and extraordinary~~ items should be reported ~~individually separately~~ within an “unusual or infrequent ~~special and extraordinary~~ items” classification. ~~(Because inflows~~ Significant transactions or other events that are either unusual or infrequent but are not within the control of short-term management should be separately identified within the appropriate revenue or expenditure category in the statement of revenues, expenditures, and changes in fund balances or be disclosed in the notes to financial resources and outflows of short-term financial resources ~~statements. (Because other financing sources and uses, rather than gains or losses, are reported for debt refundings in governmental funds, these transactions should not be reported as unusual or infrequent extraordinary items.)~~ [GASBS 34, ¶89, as amended by GASBS XX, ¶9, ¶10, ¶22, ¶23, and ¶27; GASBS XX, ¶10]

Required reconciliation

~~.169.~~.171 Paragraph ~~.161.~~.160 requires governments to present a summary reconciliation at the bottom of the fund financial statements or in an accompanying schedule. Items that typically will be required to reconcile the total change in governmental fund balances to the change in net position of governmental activities in the statement of activities include, but are not limited to, the effects of:

- Reporting revenues applying the economic resources measurement focus and accrual basis of accounting in the statement of activities and reporting inflows of resources applying the short-term financial resources measurement focus and accrual basis of accounting in the fund financial statements
- ~~Reporting revenues on the accrual basis~~
- Reporting annual depreciation expense instead of outflows of resources ~~expenditures~~ for capital outlays
- Reporting long-term debt proceeds in the statement of net position as liabilities instead of inflows of resources ~~other financing sources~~; also, reporting debt principal payments in the statement of net position as reductions of liabilities

instead of outflows of resources~~expenditures~~

- Reporting other expenses applying the economic resources measurement focus and accrual basis of accounting in the statement of activities and reporting outflows of resources applying the short-term financial resources measurement focus and accrual basis of accounting in the fund financial statements
- ~~Reporting other expenses on the accrual basis~~
- Adding the net revenue (expense) of internal service funds, as discussed in paragraph .157156.

[GASBS 34, ¶90, as amended by GASBS 63, ¶18 and GASBS XX, fn10, ¶12 and ¶27

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Required Financial Statements—Proprietary Funds

~~170.172~~ Required financial statements for proprietary funds are:

- a. Statement of net position³³³¹
- b. Statement of revenues, expenses, and changes in fund net position.
- c. Statement of cash flows.

[GASBS 34, ¶91, as amended by GASBS 63, ¶8]

Separate Presentation of Internal Service Funds

~~171.173~~ As discussed in paragraph ~~159.158~~, proprietary fund statements should present the financial information for each major enterprise fund in a separate column. Nonmajor enterprise funds should be aggregated and displayed in a single column, and a combined total column should be presented for all enterprise funds. Major fund reporting requirements do not apply to internal service funds. The combined totals for all internal service funds should be reported in separate columns on the face of the proprietary fund financial statements to the right of the total enterprise funds column. [GASBS 34, ¶96]

Statement of Net Position

~~172.174~~ The statement of net position should be presented in a classified format to distinguish between current and long-term assets and liabilities as discussed in paragraphs ~~177–181~~^{175–179} and paragraphs ~~183–192~~^{181–190}. Assets and liabilities should not be offset except where a right of offset exists. Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be added to the total for liabilities to provide subtotals. [GASBS 34, ¶97, as amended by GASBS 62, ¶29–¶43 and GASBS 63, ¶7; GASBS 62, ¶501 and fn232, as amended by GASBS 63, ¶8; GASBS 63, ¶7]

~~173.175~~ Business-type activities, including enterprise funds, may report assets with a corresponding liability that otherwise should be reported in a custodial fund in the statement of net position of the business-type activity if those assets, upon receipt, are normally expected to be held for three months or less. [GASBS 84, ¶19]

³³³¹Governments are encouraged to use a *net position* format, although a *balance sheet* format may be used. [GASBS 34, fn39, as amended by GASBS 63, ¶8]

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~~.174.176~~ Net position of proprietary funds should be displayed in three components—*net investment in capital assets*; *restricted* (distinguishing between major categories of restrictions); and *unrestricted*. Paragraphs ~~.119-.126~~~~118-.125~~ define these terms for purposes of determining the amount to be reported in the various components of net position. Capital contributions should not be displayed as a separate component of net position. Designated amounts of net position should not be reported on the face of the financial statements. (See paragraph ~~.126~~~~125~~.) [GASBS 34, ¶198, as amended by GASBS 63, ¶18]

Statement of net position classification

~~.175.177~~ Paragraphs ~~.178-.192~~~~176-190~~ apply only when a government is preparing a classified statement of net assets for accounting and financial reporting purposes. Paragraphs ~~.183-.192~~~~181-190~~ also apply to disclosures made about maturities of obligations reported in both classified and unclassified statements of net assets. [GASBS 62, ¶29]

Current assets

~~.176.178~~ For accounting and financial reporting purposes, the term *current assets* is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year. Therefore, current assets generally include such resources as (a) cash available for current operations and items that are the equivalent of cash; (b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts; (c) trade accounts, notes, and acceptances receivable; (d) receivables from taxpayers, other governments, vendors, customers, beneficiaries, and employees, if collectible within a year; (e) installment or accounts and notes receivable if they conform generally to normal trade practices and terms within the business-type activity; (f) marketable securities representing the investment of cash available for current operations; and (g) prepayments such as insurance, interest, rents, unused royalties, current paid advertising service not yet received, and operating supplies. Prepayments are not current assets in the sense that they will be converted into cash but in the sense that, if not paid in advance, they would require the use of current assets within a year. [GASBS 62, ¶30, as amended by GASBS 65, ¶31]

~~.177.179~~ This concept of the nature of current assets contemplates the exclusion from that classification of such resources as (a) cash and claims to cash that are restricted as to withdrawal or use for other than current operations, that are designated for disbursement in the acquisition or construction of noncurrent assets, or that are segregated³⁴³² for

³²³⁴Even though not actually set aside in special accounts, resources that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes also should, under this concept, be excluded from current assets. However, where such resources are considered to offset maturing debt that has properly been set up as a current liability, they may be included within the current asset classification. [GASBS 62, fn11]

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the liquidation of long-term debts; (b) receivables arising from unusual transactions (such as the sale of capital assets) that are not expected to be collected within 12 months; (c) cash surrender value of life insurance policies; (d) land and other natural resources; and (e) depreciable assets. [GASBS 62, ¶31, as amended by GASBS 65, ¶31]

~~.178.180~~ Unearned discounts (other than cash or quantity discounts and the like), finance charges, and interest included in the face amount of receivables should be shown as a deduction from the related receivables. [GASBS 62, ¶32]

Classification and disclosure of allowances

~~.179.181~~ Asset valuation allowances for losses, such as those on receivables, should be deducted from the assets or groups of assets to which the allowances relate, with appropriate disclosure. [GASBS 62, ¶33]

Reporting restrictions on asset use

~~.180.182~~ Restricted assets should be reported when restrictions (as defined in paragraph ~~.120.119~~) on asset use change the nature or normal understanding of the availability of the asset. For example, cash and investments normally are classified as current assets, and a normal understanding of these assets presumes that restrictions do not limit the government's ability to use the resources to pay current liabilities. But cash and investments held in a separate account that can be used to pay debt principal and interest only (as required by the debt covenant) and that cannot be used to pay other current liabilities should be reported as restricted assets. Because restricted assets may include temporarily invested debt proceeds or other resources that are not generated through operations (such as customer deposits), the amount reported as restricted assets will not necessarily equal restricted net position. [GASBS 34, ¶99, as amended by GASBS 63, ¶8]

Current liabilities

~~.181.183~~ The term *current liabilities* is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a category in the statement of net position, the classification is intended to include obligations for items that have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in providing services; collections received in advance of the performance of services;

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and debts that arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, and royalties. Other liabilities whose regular and ordinary liquidation is expected to occur within one year also are intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be ~~used~~³⁵ expended within one year under sinking fund provisions, and certain obligations arising from the collection or acceptance of cash or other assets for the account of third parties. The current liability classification also is intended to include obligations that, by their terms, are due on demand or will be due on demand within one year from the date of the financial statements,³⁶ even though liquidation may not be expected within that period.³⁷ It also is intended to include long-term obligations that are or will be ~~callable~~³⁸ ~~callable~~³⁶ by the creditor either because the debtor's violation of a ~~provision~~³⁹ ~~provision~~³⁷ of the debt agreement at the date of the financial statements makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable. Accordingly, such callable obligations should be classified as current liabilities unless one of the following conditions is met:

- a. The creditor has ~~waived~~⁴⁰ ~~waived~~³⁸ or subsequently ~~lost~~⁴¹ ~~lost~~³⁹ the right to demand repayment for more than one year from the date of the financial statements.
- b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is ~~probable~~⁴² ~~probable~~⁴⁰ that the violation will be cured within that period, thus preventing the obligation from becoming callable.

³⁵³³ Examples of such current liabilities are obligations resulting from advance collections on ticket sales, which normally will be liquidated in the ordinary course of operations by the delivery of services, or security deposits received for providing water, electric, sewer, or cable service. On the contrary, obligations representing long-term deferments of the delivery of services would not be shown as current liabilities. An example of the latter is the advance receipt by a lessor of the lease payment for the final period of a 10-year lease as a condition to execution of the lease agreement. [GASBS 62, fn12, as amended by GASBS 87, ¶53]

³⁶³⁴ *Date of the financial statements* means the end of the most recent accounting period for which financial statements are being presented. [GASBS 62, fn13]

³⁷³⁵ Specific guidance for demand bonds is provided in Section D30, "Demand Bonds," paragraph .108. [GASBS 62, fn14]

³⁸³⁶ An obligation is *callable* at a given date if the creditor has the right at that date to demand, or to give notice of its intention to demand, repayment of the obligation owed to it by the debtor. [GASBS 62, fn15]

³⁹³⁷ A *violation of a provision* is the failure to meet a condition in a debt agreement or a breach of a provision in the agreement for which compliance is objectively determinable, whether or not a grace period is allowed or the creditor is required to give notice of its intention to demand repayment. [GASBS 62, fn16]

⁴⁰³⁸ If the obligation is callable because of violations of certain provisions of the debt agreement, the creditor needs to waive its right with regard only to those violations. [GASBS 62, fn17]

⁴¹³⁹ For example, the debtor has cured the violation after the date of the financial statements and the obligation is not callable at the time the financial statements are issued. [GASBS 62, fn18]

⁴²⁴⁰ *Probable* is defined in paragraph .155 of Section C50, "Claims and Judgments," as "likely to occur" and is used in the same sense in this paragraph. [GASBS 62, fn19]

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Short-term obligations that are expected to be refinanced on a long-term basis, including those callable obligations discussed herein, should be classified in accordance with paragraphs ~~.185-.192~~~~183-190~~. [GASBS 62, ¶34, as amended by GASBS 63, ¶8, GASBS 84, ¶5, and GASBS ~~XX~~, ~~¶2784~~, ~~¶5~~]

~~.182.184~~ This concept of current liabilities should include estimated or accrued amounts that are expected to be required to cover disbursements within the year for known obligations (a) the amount of which can be determined only approximately (as in the case of provisions for accruing bonus payments) or (b) in which the specific person or persons to whom payment will be made cannot as yet be designated (as in the case of estimated costs to be incurred in connection with guaranteed servicing or repair of products already sold). The current liability classification, however, is not intended to include debts to be liquidated by resources that have been accumulated in accounts of a type not properly classified as current assets, or long-term obligations incurred to provide increased amounts of working capital for long periods. When the amounts of the periodic payments of an obligation are, by contract, measured by current transactions, as, for example, by rents or revenues received in the case of equipment trust certificates or by the depletion of natural resources in the case of property obligations, the portion of the total obligation to be included as a current liability should be that representing the amount accrued at the date of the financial statements. [GASBS 62, ¶35]

Classification of short-term obligations expected to be refinanced

~~.183.185~~ For purposes of applying paragraphs ~~.177-.192~~~~175-190~~, *short-term obligations* are those that are scheduled to mature within one year after the date of a government's financial statements. *Long-term obligations* are those scheduled to mature beyond one year from the date of a government's financial statements. *Refinancing a short-term obligation on a long-term basis* means either replacing it with a long-term obligation or renewing, extending, or replacing it with short-term obligations for an uninterrupted period extending beyond one year from the date of a government's financial statements. Accordingly, despite the fact that the short-term obligation is scheduled to mature during the ensuing fiscal year, it will not require the use of working capital during that period. [GASBS 62, ¶36]

Classification

~~.184.186~~ Short-term obligations arising from transactions in the normal course of operations that are due in customary terms should be classified as current liabilities. [GASBS 62, ¶37]

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~~.185.187~~ A short-term obligation other than one classified as a current liability in accordance with paragraph ~~.186.184~~ should be excluded from current liabilities only if the following conditions are met:⁴³⁴¹

- a. The government intends to refinance the obligation on a long-term basis. (See paragraph ~~.185.183~~.)
- b. The government has the ability to consummate the refinancing. (See paragraph ~~.188.186~~.)

[GASBS 62, ¶38]

Ability to Consummate the Refinancing

~~.186.188~~ The government's intent to refinance the short-term obligation on a long-term basis is supported by an ability to consummate the refinancing demonstrated in either of the following ways:

- a. *Issuance of a long-term obligation after the date of the financial statements.* After the date of a government's financial statements but before those financial statements are issued, a long-term obligation has been issued for the purpose of refinancing the short-term obligation on a long-term basis; or
- b. *Financing agreement.* Before the financial statements are issued, the government has entered into a financing agreement that clearly permits the government to refinance the short-term obligation on a long-term basis on terms that are readily determinable, and all of the following conditions are met:
 - (1) The agreement does not expire within one year from the date of the government's financial statements and during that period the agreement is not cancelable by the lender or the prospective lender (and obligations incurred under the agreement are not callable during that period) except for violation of a provision with which compliance is objectively determinable or measurable.⁴⁴⁴²
 - (2) No violation of any provision in the financing agreement exists at the date of the financial statements and no available information indicates that a violation has occurred thereafter but prior to the issuance of the financial statements, or, if one exists at the date of the financial statements or has occurred thereafter, a waiver has been obtained.

⁴³⁴¹Consistent with paragraph ~~.186.184~~ and footnote ~~3432~~, resources obtained on a long-term basis prior to the date of the financial statements would be excluded from current assets if the obligation to be liquidated is excluded from current liabilities. [GASBS 62, fn20]

⁴⁴⁴²Financing agreements cancelable for violation of a provision that can be evaluated differently by the parties to the agreement (such as "a material adverse change" or "failure to maintain satisfactory operations") do not comply with this condition. [GASBS 62, fn21]

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- (3) The lender or the prospective lender with which the government has entered into the financing agreement is expected to be financially capable of honoring the agreement.

[GASBS 62, ¶139]

~~187.189~~ If a government's ability to consummate an intended refinancing of a short-term obligation on a long-term basis is demonstrated by issuance of a long-term obligation after the date of the financial statements (paragraph ~~188a.186a~~), the amount of the short-term obligation to be excluded from current liabilities should not exceed the proceeds of the new long-term obligation. If the ability to refinance is demonstrated by the existence of a financing agreement (paragraph ~~188b.186b~~), the amount of the short-term obligation to be excluded from current liabilities should be reduced to the amount available for refinancing under the agreement when the amount available is less than the amount of the short-term obligation. The amount to be excluded should be reduced further if information (such as restrictions in other agreements or restrictions as to transferability of resources) indicates that resources obtainable under the agreement will not be available to liquidate the short-term obligation. Further, if amounts that could be obtained under the financing agreement fluctuate (for example, in relation to the government's needs, in proportion to the value of collateral, or in accordance with other terms of the agreement), the amount to be excluded from current liabilities should be limited to a reasonable estimate of the minimum amount expected to be available at any date from the scheduled maturity of the short-term obligation to the end of the fiscal year. If no reasonable estimate can be made, the entire outstanding short-term obligation should be included in current liabilities. [GASBS 62, ¶40]

~~188.190~~ The government may intend to seek an alternative source of financing rather than to exercise its rights under the existing agreement when the short-term obligation becomes due. The government should intend to exercise its rights under the existing agreement, however, if that other source does not become available.⁴⁵⁴³
[GASBS 62, ¶41]

~~189.191~~ Replacement of a short-term obligation with another short-term obligation after the date of the financial statements but before the financial statements are issued is not, by itself, sufficient to demonstrate a government's ability to refinance the short-term obligation on a long-term basis. If, for example, the replacement is made under the terms of a revolving credit agreement that provides for renewal or extension of the short-term obligation for an uninterrupted period extending beyond one year from the date of the financial statements, the revolving credit agreement is required to meet the conditions in paragraph ~~188b.186b~~ to justify excluding the short-term obligation from current liabilities. Similarly, if the replacement is another short-term obligation accompanied

⁴⁵⁴⁵The intent to exercise may not be present if the terms of the agreement contain conditions or permit the prospective lender to establish conditions, such as interest rates or collateral requirements that are unreasonable to the government.
[GASBS 62, fn22]

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by a “stand-by” credit agreement, the stand-by agreement is required to meet the conditions in paragraph ~~188b.186b~~ to justify excluding the short-term obligation from current liabilities. [GASBS 62, ¶42]

~~190.192~~ Repayment of a short-term obligation *before* resources are obtained through a long-term refinancing requires the use of current assets. Therefore, if a short-term obligation is repaid after the date of the financial statements and subsequently a long-term obligation whose proceeds are used to replenish current assets before the financial statements are issued, the short-term obligation should not be excluded from current liabilities at the date of the financial statements. [GASBS 62, ¶43]

Statement of Revenues, Expenses, and Changes in Fund Net Position

~~191.193~~ The operating statement for proprietary funds is the statement of revenues, expenses, and changes in fund net position. Revenues should be reported by major source.⁴⁶⁴⁴ This statement also should distinguish between operating and nonoperating revenues and expenses (as discussed in paragraph ~~195~~), as well as 193 and should present a separate subtotal for ~~operating revenues, operating expenses, and operating income~~. Nonoperating revenues and expenses should be reported after operating income. Revenues from capital contributions and additions to the principal of permanent and term endowments, special and extraordinary items, and transfers should be reported separately report noncapital subsidies (a type of, after nonoperating revenues and expenses). Governments should present unusual or infrequent items individually as the last presented flow(s) of resources prior to the net change in resource flows in the proprietary funds statement of resource flows, as illustrated below. [GASBS 34, ¶100, as amended by GASBS 48, ¶21, and GASBS 63, ¶8, and GASBS XX, ¶29; GASBS XX, ¶10 and ¶29]

~~192.194~~ The statement of revenues, expenses, and changes in fund net position should present the following information~~be presented~~ in the following sequence, using the all-inclusive format indicated:

Operating revenues (detailed)

Total operating revenues

Operating expenses (detailed)

Total operating expenses

Operating income (loss)

Noncapital subsidies (detailed)

Total noncapital subsidies

Operating income (loss) and noncapital subsidies

Other nonoperating~~Nonoperating~~ revenues and expenses
(detailed)

Total other nonoperating revenues and expenses

Income (loss) before unusual or infrequent items

Unusual or infrequent items (detailed)

Income before other revenues, expenses, gains, losses, and transfers

Capital contributions (grant, developer, and other), additions to permanent and term endowments, special and extraordinary items (detailed), and transfers

Increase (decrease) in fund net position

Fund net~~Net~~ position—beginning of period
Fund net~~Net~~ position—end of period

Each caption, subtotal, and total shown in the format above should be presented, as applicable.

[GASBS XX, ~~¶3034, ¶101, as amended by GASBS 63, ¶8~~]

⁴⁶⁴⁴ Revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the financial statements. Alternatively, revenues may be reported gross with the related discounts and allowances reported directly beneath the revenue amount. [GASBS 34, fn41]

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Definition of ~~Defining~~ operating revenues and expenses and description of nonoperating revenues and expenses

.195 Operating revenues and expenses are revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are (a) subsidies received and provided, (b) revenues and expenses related to financing, (c) resources from the disposal of capital assets and inventory, and (d) investment income and expenses. Revenues and expenses normally classified as nonoperating in most proprietary fund financial statements should be classified as operating revenues and expenses if those transactions constitute the proprietary fund's principal ongoing operations. For example, interest revenues and expenses should be reported as operating revenues and expenses by a proprietary fund established to provide loans to first-time homeowners. Consistent with the classifications in the statement of cash flows, revenues and expenses of certain loan programs as described in paragraph .116 of Section 2450 should be reported as operating revenues and expenses. [GASBS XX, ¶131]

Definition of subsidies

.196 Subsidies are (a) resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided or (b) resources provided to another party or fund that results in higher rates than otherwise would be established for the level of goods and services to be provided. [GASBS XX, ¶132]

~~.193 Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies, and use it consistently from period to period. A consideration for defining a proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows using Section 2450. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income.⁴⁵ This includes most revenues considered to be nonexchange and exchange-like, such as tax revenues and, in some cases, fees and charges (such as passenger facilities charges). [GASBS 34, ¶102]~~

Reporting capital contributions and additions to permanent and term endowments

.197 ~~.194~~ All proprietary fund revenues, including capital contributions and additions to permanent and term endowments, should be reported in the statement of revenues, expenses, and changes in fund net position. ~~As discussed in paragraphs .191 and .192, capital contributions and additions to permanent and term endowments should be reported after nonoperating revenues and expenses.~~ Revenue recognition for these and all other nonexchange revenues should be based on the requirements of Section N50, "Nonexchange Transactions." Net position resulting from certain capital contributions may be required to be reported as net investment in capital assets, as discussed in paragraph ~~.119~~¹¹⁸. Paragraph ~~.124~~¹²³ provides that the restricted component of net position should be separated into expendable and nonexpendable subcategories when net position arises from additions to

permanent endowments. [GASBS 34, ¶103, as amended by GASBS 63, ¶18 and
¶19 and GASBS XX, ¶31]

Required reconciliations

.198 ~~.195~~ Generally, the amounts reported as net position and changes in net position in the proprietary fund financial statements for total enterprise funds will be the same as net position and changes in net position of business-type activities in the government-wide statement of activities. However, if there are differences (for example, if reclassification of internal service fund transactions, as discussed in paragraph .157 ~~.156~~, affects enterprise funds), they should be explained on the face of the fund statement (or in an accompanying schedule) as discussed in paragraph .161 ~~.160~~. [GASBS 34, ¶104, as amended by GASBS 63, ¶18]

superseded by GASBS XX, ¶31

⁴⁵~~Revenue and expense transactions normally classified as other than operating cash flows from operations in most proprietary funds may be classified as operating revenues and expenses if those transactions constitute the reporting proprietary fund's principal ongoing operations. For example, interest revenue and expense transactions should be reported as operating revenue and expense by a proprietary fund established to provide loans to first time homeowners. [GASBS 34, fn42]~~

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Statement of Cash Flows

.199 ~~.196~~ Governments should present a statement of cash flows for proprietary funds based on the provisions of Section 2450. The direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) should be used. [GASBS 34, ¶105]

Required Financial Statements—Fiduciary Funds (including Fiduciary Component Units)

.200 ~~.197~~ Required financial statements for fiduciary funds are the statement of fiduciary net position and the statement of changes in fiduciary net position.⁴⁷⁴⁶ Fiduciary fund financial statements should include information about all fiduciary funds of the primary government, including fiduciary component units. The statements should provide a separate column for each type of fiduciary fund—pension (and other employee benefit) trust funds, investment trust funds, private-purpose trusts, and custodial funds. Financial statements for individual pension plans that are administered through trusts that meet the criteria in paragraph .101 of Section Pe5 and other postemployment benefit plans that are administered through trusts that meet the criteria in paragraph .101 of Section Po50⁴⁸⁴⁷ should be presented in the notes to the financial statements of the primary government if separate, GAAP financial reports have not been issued. If separate, GAAP financial reports have been issued, the notes should include information about how to obtain those separate reports. [GASBS 34, ¶106, as amended by GASBS 63, ¶8, GASBS 73, ¶115 and ¶116, GASBS 74, ¶20, and GASBS 84, ¶5 and ¶14–¶18]

Statement of Fiduciary Net Position

.201 ~~.198~~ The statement of fiduciary net position should include information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position for pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be

⁴⁷⁴⁶For defined benefit pension plans that are administered through trusts that meet the criteria in paragraph .101 of Section Pe5, “Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit,” and defined benefit other postemployment benefit plans that are administered through trusts that meet the criteria in paragraph .101 of Section Po50, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Benefit,” the statement of fiduciary net position and statement of changes in fiduciary net position required by this section are equivalent to the financial statements required by Sections Pe5 and Po50. [GASBS 34, fn43, as amended by GASBS 67, ¶14, GASBS 73, ¶115 and ¶116, and GASBS 74, ¶20]

⁴⁸⁴⁷See paragraph .112 of Section Pe5 and paragraph .114 of Section Po50, respectively. [GASBS 34, fn44, as amended by GASBS 67, ¶14, GASBS 73, ¶115 and ¶116, and GASBS 74, ¶20]

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added to the total for liabilities to provide subtotals. The detailed display requirements of Sections Pe5 and Po50 apply to the financial statements of defined benefit pension plans that are administered through trusts that meet the criteria in paragraph .101 of Section Pe5 and defined benefit other postemployment benefit plans that are administered through trusts that meet the criteria in paragraph .101 of Section Po50, respectively. Section I50, "Investments," provides detailed guidance for investment trust funds. The components of net position, discussed in paragraphs ~~.118-.126~~~~417-425~~, are not required to be presented in the statement of fiduciary net position. [GASBS 34, ¶108, as amended by GASBS 63, ¶7 and ¶8, GASBS 67, ¶15-¶21, GASBS 73, ¶115 and ¶116, GASBS 74, ¶21-¶27, GASBS 84, ¶20, and GASBS 92, ¶19~~84, ¶20; GASBS 63, ¶7; GASBS 84, ¶20; GASBS 84, and ¶22, as amended by GASBS 92, ¶19~~]

Statement of Changes in Fiduciary Net Position

.202 ~~.199~~ The statement of changes in fiduciary net position should be used to report additions to and deductions from the fiduciary net position for pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. Except for entities that apply paragraph ~~.203~~~~200~~, the statement of changes in fiduciary net position should disaggregate additions by source including, if applicable, separate display of (a) investment earnings, (b) investment costs (including investment management fees, custodial fees, and all other significant investment-related costs), and (c) net investment earnings (investment earnings minus investment costs). Investment-related costs should be reported as investment costs if they are separable from investment earnings and administrative costs. The statement of changes in fiduciary net position should disaggregate deductions by type and, if applicable, should separately display administrative costs. [GASBS 34, ¶109, as amended by GASBS 63, ¶8, GASBS 67, ¶22-¶29, GASBS 73, ¶115 and ¶116, GASBS 74, ¶20-¶33, and GASBS 84, ¶23; GASBS 84, ¶23]

.203 ~~.200~~ A government may report a single aggregated total for additions and a single aggregated total for deductions of custodial funds in which resources, upon receipt, are normally expected to be held for three months or less. The descriptions of the aggregated totals of additions and deductions should indicate the nature of the resource flows. An example of a description of the nature of a custodial fund addition is *property taxes collected for other governments*. An example of a description of the nature of a custodial fund deduction is *property taxes distributed to other governments*. A government that reports a defined benefit pension plan or defined benefit OPEB plan in a fiduciary fund should report changes in the fund's net position in accordance with the detailed display requirements of Section Pe5 or Section Po50, as applicable. [GASBS 34, ¶109, as amended by GASBS 63, ¶8, GASBS 67, ¶22-¶29, GASBS 73, ¶115 and ¶116, GASBS 74, ¶20-¶33, ~~and~~ GASBS 84, ¶24 and ¶25, and GASBS 92, ¶19; GASBS 84, ¶24; GASBS 84, and ¶25, as amended by GASBS 92, ¶19]

Comparative Financial Statements

.204 ~~.201~~ Paragraphs ~~.205~~~~202~~ and ~~.206~~~~203~~ set forth general principles applicable to the presentation of a complete set of financial statements covering one or more preceding periods, along with the current period. Paragraphs ~~.205~~~~202~~ and ~~.206~~~~203~~

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are not applicable to current-year financial statements that only include prior year summary financial information. For example, those paragraphs are not applicable to a general purpose government's current-year financial statements that include only a total column for the prior year's statement of net position and a column for the prior year's "net (expense) revenue and changes in net position" in the statement of activities. [GASBS 62, ¶151, as amended by GASBS 63, ¶18]

.205 ~~.202~~ If the statement of net position⁵⁰⁴⁸ and the flows statement⁵¹⁴⁹ are presented for one or more preceding periods, as well as the current period, the notes to the financial statements that were presented for the preceding periods should be repeated to the extent that they continue to be of significance. If, because of reclassifications or for other reasons, changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, information should be furnished to explain the change. [GASBS 62, ¶152, as amended by GASBS 63, ¶18]

.206 ~~.203~~ It is necessary that prior-period figures shown for comparative purposes be, in fact, comparable with those shown for the most recent period, or that any exceptions to comparability be clearly brought out as described in paragraphs .125–.152 of Section 2250, "Additional Financial Reporting Considerations." [GASBS 62, ¶153]

Basic Financial Statements—Notes to Financial Statements

.207 ~~.204~~ Note disclosure requirements are outlined in Section 2300.

Required Supplementary Information Other Than Management's Discussion and Analysis

.208 ~~.205~~ Required supplementary information consists of schedules, statistical data, and other information that the GASB has determined are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity. With the exception of MD&A, discussed in paragraphs .106–.110~~109~~, all other required supplementary information (as required by various Codification sections) should be presented immediately following the notes to the basic financial statements.⁵²⁵⁰ Other RSI may include budgetary comparison schedules (discussed below), information about the modified approach for reporting infrastructure assets (see Section 1400, paragraphs .105–.107), and employee benefit related information (see Sections P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit," P50, "Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit," Pe5, "Pension Plans

⁴⁹⁴⁸For purposes of applying paragraphs ~~.204–.206~~~~201–203~~, the term *statement of net position* includes the government-wide statement of net position and the proprietary fund statement of fund net position. [GASBS 62, fn24, as amended by GASBS 63, ¶18]

⁵⁰⁴⁹For purposes of applying paragraphs ~~.204–.206~~~~201–203~~, the term *flows statement* includes the government-wide statement of activities and the proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 62, fn25, as amended by GASBS 63, ¶18]

⁵¹⁵⁰This paragraph does not modify the provisions of Section Po20, paragraph .146. [GASBS 34, fn5]

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Administered through Trusts That Meet Specified Criteria—Defined Benefit,” and Po50, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Benefit”). [GASBS 34, ¶6, as amended by GASBS XX, ¶4–¶8; GASBS 34, ¶129, as amended by GASBS 67, ¶32–¶34, GASBS 68, ¶46, ¶47, ¶81, ¶82, ¶114, ¶115, and ¶117, GASBS 73, ¶45, ¶46, ¶66, ¶93, ¶94, ¶96, ¶115, and ¶116, GASBS 74, ¶36–¶38 and ¶59, and GASBS 75, ¶57, ¶97, ¶134, ¶137, ¶170, ¶191, ¶218, and ¶221, and GASBS XX, ¶4–¶8]

Budgetary Comparison Schedules

.209 .206 Budgetary comparison schedules ~~comparisons~~—should be presented as RSI for the general fund and for each major special ~~resources~~revenue fund that has a legally adopted annual budget. ~~Governments are encouraged to present such budgetary comparison information in schedules as a part of RSI.~~⁵¹ However, a government with significant budgetary perspective differences that result in the government’s not being able to present budgetary comparisons for the general fund and each major special ~~resources~~revenue fund is required to present budgetary comparison schedules as RSI based on the fund, organization, or program structure that the government uses for its legally adopted budget.⁵² The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government’s budgetary basis. Separate columns for ~~A separate column to report the variances~~ variance between (a) original and the final budget amounts and (b) final budget amounts and actual budget results are ~~amounts is encouraged but not required to be presented. An analysis of significant variations. Governments may also report the variance between original and final budget amounts and final budget amounts and actual budget results also is required to be presented in notes to RSI. The analysis should include any currently known reasons for those variations that are expected to have a significant effect on budgetary fund balance or to produce significant differences from current period budgetary results. ...~~

- a. The *original budget* is the first complete appropriated budget.⁵³ The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances.
- b. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

[GASBS 34, ¶130, as amended by GASBS 41, ¶3 and GASBS XX, ¶28 and ¶34; GASBS XX, ¶134]

⁵¹~~Governments, except those that are not able to present budgetary comparisons because of perspective differences as discussed in paragraph .113 of Section 2400, may elect to report this budgetary comparison information in a budgetary comparison statement as part of the basic financial statements, rather than as RSI. If presented, the additional statement and related disclosures should include the same items of information that paragraphs .102 and .103 of Section 2400 require to be displayed or disclosed. [GASBS 34, ¶53, as amended by GASBS 41, ¶3, superseded by GASBS XX, ¶134]~~

⁵²These governments generally should present budgetary comparisons for the activities that are reported in the general fund and each major special ~~resources~~revenue fund. [GASBS 41, ¶3, as amended by GASBS XX, ¶128]

⁵³Section 2400, paragraph .108, defines *appropriated budget* as “the budgetary outflows of

resources expenditure authority created by the appropriation bills or ordinances which are signed into law and related estimated budgetary inflows of resources.” revenues.” [GASBS 34, fn55, as amended by GASBS XX, 127]

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.210 ~~.207~~ Governments may present the budgetary comparison schedule using the same format, terminology, and classifications as the budget document, or using the format, terminology, and classifications in a statement of short-term financial resource flows, revenues, expenditures, and changes in fund balances. Regardless of the format used, the schedule should be accompanied by information (either in a separate schedule or in notes to RSI) that reconciles budgetary information to GAAP information, as discussed in Section 2400. Notes to RSI should disclose excesses of budgetary outflows of resources ~~expenditures~~ over appropriations in individual funds presented in the budgetary comparison, as discussed in Section 2300, paragraph .106.⁵⁴ [GASBS 34, ¶131, as amended by GASBS 37, ¶19 and GASBS XX, ¶11 and ¶27; GASBS 37, ¶19, as amended by GASBS XX, ¶27]

Combining Statements and Individual Fund Statements and Schedules

.211 ~~.208~~ The primary government's major governmental and enterprise funds are required to be reported on the face of the fund financial statements, as discussed in paragraphs ~~.159~~¹⁵⁸ and ~~.160~~¹⁵⁹. Combining and individual fund statements required in the financial section of the CAFR for the funds of the primary government include:

- a. Nonmajor governmental funds
 - (1) Combining short-term financial resources balance sheets
 - (2) Combining statements of short-term financial resource flows ~~revenues, expenditures, and changes in fund balances~~
- b. Individual fund short-term financial resources balance sheets and statements of short-term financial resource flows ~~revenues, expenditures, and changes in fund balances~~, and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions of governmental funds
- c. Internal service funds and nonmajor enterprise funds
 - (1) Combining statements of net position
 - (2) Combining statements of revenues, expenses, and changes in fund net position
 - (3) Combining statements of cash flows
- d. Individual statements of net position; statements of revenues, expenses, and changes in fund net position and of cash flows; and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions of proprietary funds
- e. Fiduciary funds⁵⁴⁵⁵
 - (1) A combining statement of fiduciary net position
 - (2) A combining statement of changes in fiduciary net position

~~If the budgetary comparison information is included in the basic statements, as described in footnote 51, these disclosures should be in the notes to the financial statements, rather than as notes to RSI. [GASBS 34, ¶56] superseded by GASBS XX, ¶34~~

⁵⁴⁵⁵In certain circumstances, combining statements are required for other employee benefit trust funds. (See Section Sp20, paragraph .117.) [GASBS 34, ¶140, as amended by GASBS 63, ¶8, GASBS 67, ¶5 and ¶11, GASBS 73, ¶5, ¶7, ¶115, and ¶116, and GASBS 74, ¶3, ¶5, and ¶18]

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Total columns of combining statements of nonmajor governmental and enterprise funds and for internal service and fiduciary funds should agree with the appropriate aggregated column in the fund financial statements. Likewise, any interfund and similar eliminations should be made apparent from the headings or disclosed in the notes to the financial statements.

[NCGAS 1, ¶143 and ¶147, as amended by GASBS 34, ¶12, ~~¶78~~, ¶80, ¶82, ¶86, ¶91, ¶106, ¶107, ¶112, and ¶130, GASBS 63, ¶8, GASBS 84, ¶23, and GASBS XX, ¶1184, ¶123; GASBS 9, ¶6; GASBS 34, ¶75 and ¶96 and fn35 and fn36]

.212 ~~.209~~ Section 2600, paragraph .108, discusses reporting requirements for major component units. The data presented for each component unit in the combining statements generally should be the entity totals derived from the component units' statements of net position and activities.⁵⁵⁵⁶ Presentation of the fund financial statements of the individual component units is not required unless such information is not available in separately issued financial statements of the component unit. Combining financial statements for nonmajor discretely presented component units should be included in the reporting entity's CAFR using the same methodology as combining (and individual fund) statements of the nonmajor funds of the primary government. [GASBS 14, ¶50; GASBS 34, ¶126, as amended by GASBS 63, ¶8; GASBS 37, ¶18; GASBS XX, ¶133]

Schedules

.213 ~~.210~~ Since the data in financial statements are summarized by major classifications (e.g., outflows of resources~~expenditures~~ by functions or programs), the statements often are supported by schedules setting forth the data in greater detail. Schedules are also used to present:

(1) data on a legally or contractually prescribed basis different from GAAP, and (2) other data that management wants to present that is not required by GAAP. Schedules are considered "supplemental" unless referenced in the financial statements or the notes to the financial statements. [NCGAS 1, ¶131, as amended by GASBS XX, ¶127]

Narrative Explanations

.214 ~~.211~~ Narrative explanations of combining and individual fund statements and schedules of the primary government (including its blended component units) and of combining and individual nonmajor discretely presented component units should provide information not included in the financial statements, notes to the financial statements, and schedules that is necessary (a) to assure an understanding of those statements and schedules and (b) to demonstrate compliance with finance-related legal and contractual provisions. (In extreme cases, it may be necessary to prepare a separate legal-basis special report as discussed in Section 1200, paragraph .113.) The narrative explanations,

⁵⁵⁵⁶Because component units that are engaged only in business-type activities or only in business-type and fiduciary activities are not required to prepare a statement of activities, this disclosure should be taken from the information provided in the component unit's combined statement of revenues, expenses, and changes in fund net position. [GASBS 34, fn51, as amended by GASBS 63, ¶8 and GASBS 84, ¶14]

including a description of the nature and purpose of the various funds, should be presented on divider pages, directly on the statements and schedules, or in a separate section. [NCGAS 1, ¶159, as amended by GASBS 14 and GASBS 34, ¶6, ¶80, ¶82, ¶126, and fn50]

Statistical Tables

.215 ~~.242~~ Statistical tables, discussed in Section 2800, present comparative data for several periods of time—often ten years or more—or contain data from sources other than the accounting records. Examples of such nonaccounting information are assessed valuations and tax rates, economic and population data, and the legal debt margin. [NCGAS 1, ¶132]

Required Major Component Unit Information

.216 ~~.213~~ Paragraph .105 of Section 2600 requires that “financial statements of the reporting entity should provide an overview of the entity, yet allow users to distinguish between the primary government and its component units.” Paragraph .101 of this section states that “... the reporting entity’s financial statements... [should] provide an overview of the discretely presented component units.” [GASBS 34, ¶124]

.217 ~~.214~~ These financial reporting requirements are met by discrete presentation of component unit financial data in the statement of net position and the statement of activities. Fiduciary component units, however, should be included only in the fund financial statements with the primary government’s fiduciary funds and should be aggregated with the primary government’s fiduciary funds based on the fiduciary fund classifications identified in Section 1300, “Fund Accounting.” Blended component units should be reported in accordance with Section 2600, paragraphs .112–.114. [GASBS 34, ¶125, as amended by GASBS 63, ¶8 and GASBS 84, ¶5; GASBS 84, ¶26]

.218 ~~.215~~ Paragraph .108 of Section 2600 requires information about each major component unit to be provided in the basic financial statements of the reporting entity. Governments should present each major component unit⁵⁶ in a separate column in the reporting entity’s statements of net position and activities, if it does not reduce the readability of the statements. If presenting each major component unit in a separate column in the reporting entity’s statements of net position and activities reduces the readability of the statements, (b) including combining statements of major component units⁵⁷ should be included in the reporting entity’s basic financial statements after the fund financial statements, or (c) presenting condensed financial statements in the notes to the reporting entity’s financial statements. The aggregated total component unit information, as discussed in Section 2600, paragraph .111, should be the entity totals derived from the component units’ statements of net position and activities.⁵⁸ [GASBS 34, ¶126, as amended by GASBS 37, ¶18, GASBS 63, ¶8, and GASBS XX, ¶33; GASBS 37, ¶18, as amended by GASBS 63, ¶8; GASBS XX, ¶33]

⁵⁶⁵⁷Major component unit information is not required for fiduciary component units. [GASBS 34, fn49, as amended by GASBS 84, ¶5]

⁵⁷⁵⁸Nonmajor component units should be aggregated in a single column. A combining statement for the nonmajor component units is not required but may be presented as supplementary information. [GASBS 34, fn50]

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~~graph .111, should be the entity totals derived from the component units' statements of net position and activities.~~⁵⁹ ~~[GASBS 34, ¶126, as amended by GASBS 63, ¶18; GASBS 37, ¶18]~~

~~.216 If governments choose to present component unit information in the notes, these details should be presented, at a minimum:~~

~~a. Condensed statement of net position:~~

- ~~(1) Total assets—distinguishing between current assets, capital assets, and other assets. Amounts receivable from other funds or component units should be reported separately.~~
- ~~(2) Total deferred outflows of resources.~~
- ~~(3) Total liabilities—distinguishing between current liabilities and long-term liabilities. Amounts payable to other funds or component units should be reported separately.~~
- ~~(4) Total deferred inflows of resources.~~
- ~~(5) Total net position—distinguishing among net investment in capital assets, restricted (separately reporting expendable and nonexpendable components), and unrestricted.~~

~~b. Condensed statement of activities:~~⁶⁰

- ~~(1) Expenses (by major functions and for depreciation expense, if separately reported).~~
- ~~(2) Program revenues (by type).~~
- ~~(3) Net program (expense) revenue.~~
- ~~(4) Tax revenues.~~
- ~~(5) Other nontax general revenues.~~
- ~~(6) Contributions to endowments and permanent fund principal.~~
- ~~(7) Special and extraordinary items.~~
- ~~(8) Change in net position.~~
- ~~(9) Beginning net position.~~
- ~~(10) Ending net position.~~

~~[GASBS 34, ¶127, as amended by GASBS 63, ¶17 and ¶18] superseded by GASBS XX, ¶133~~

~~.219 .216 In addition to the financial statement information required by paragraph .215, the notes to the~~ The notes to ~~financial statements should disclose, for each major component unit, the nature and amount of significant transactions with the primary government and other component units. [GASBS 34, ¶128, as amended by GASBS XX, ¶133]~~

⁵⁸⁵⁹ Because component units that are engaged only in business-type activities or only in business-type activities and fiduciary activities are not required to prepare a statement of activities, this disclosure should be taken from the information provided in the component unit's combined statement of revenues, expenses, and changes in fund net position. [GASBS 34, fn51, as amended by GASBS 63, ¶18 and GASBS 84, ¶14]

⁶⁰ See footnote 58. [GASBS 34, fn52]

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GASB IMPLEMENTATION GUIDES

.701 Comprehensive Annual Financial Reports—Overview

.701-1 Q—Which governmental units should apply the standards of this section?

A—This section applies to all state and local governmental entities, including general purpose governments, public school districts, public benefit corporations and authorities, PERS, public utilities, public hospitals and other healthcare providers, and public colleges and universities. Application of the provisions of this section to public colleges and universities was achieved through the issuance of Statement No. 35, *Basic Financial Statements— and Management's Discussion and Analysis—for Public Colleges and Universities*.

[GASBIG 2015-1, Q7.2.1]

.702 Minimum Requirements for General Purpose External Financial Reporting

.702-1 Q—What are the primary elements of the current reporting model?

A—The minimum requirements for the current reporting model, outlined in paragraphs .102 and .103 of this section are:

- MD&A as RSI
- Basic financial statements (government-wide financial statements, fund financial statements, and notes to the financial statements)
- RSI other than MD&A.

Although this section ~~the standard~~ includes requirements for notes and RSI, these are not intended to be all-inclusive. Current requirements for notes and other types of RSI will continue to be in effect.

[GASBIG 2015-1, Q7.3.1]

.702-2 Q—Can a government issue *only* the government-wide financial statements or *only* the fund financial statements as basic financial statements?

A—No. Except as provided for qualifying special-purpose governments in paragraphs .113–.116 of Section Sp20 (see Questions .705-5 and .706-1–.706-3 in Section Sp20), governments are required to present *both* the government-wide *and* the fund financial statements as basic financial statements. Omission of either the government-wide or the fund financial statements would constitute an incomplete presentation and would not meet

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the minimum requirements for general purpose external financial statements as depicted in paragraph .103 of this section.

[GASBIG 2015-1, Q7.3.3]

.702-3 Q—Can governments *combine* the government-wide and fund financial statements?

A—For most governments, the government-wide statements should not be combined with fund financial statements. However, certain single-program governments may combine their government-wide and fund financial statements as discussed in paragraph .111 of Section Sp20.

[GASBIG 2015-1, Q7.3.4]

.702-4 Q—A special-purpose government is involved in a single governmental activity but also reports a pension plan that is a fiduciary activity of the government in a pension trust fund. Can the government combine the government-wide and fund financial statements as discussed in paragraph .111 of Section Sp20?

A—Yes. The government can use the combined presentation discussed in paragraph .111 for its governmental activity, but it should also include separate fiduciary fund financial statements, as discussed in paragraph .198~~197~~ of this section, for its pension trust fund. The fiduciary fund information would not be included in the combined presentation of governmental activity.

[GASBIG 2015-1, Q7.3.5, as amended by GASBS 84, ¶14 and ¶15]

.702-5 Q—In preparing financial statements, how should those financial statements be viewed for determining materiality?

A—Governmental activities, business-type activities, and each major fund are considered to be quantitatively material.

Decisions about what should be reported separately in the basic financial statements were based on the understanding that users need financial statements or information to be provided for certain reporting units within a primary government. Some information is required to be reported because of its *quantitative* significance; other information may be required for *qualitative* reasons rather than its monetary significance. Materiality determinations, both quantitative and qualitative, made in preparing financial statements should be responsive to, and consistent with, those requirements.

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That is, requirements in this section to provide separate financial statements or information are based on the belief that particular reporting units are “material.”

Paragraph ~~.113~~~~112~~ of this section reinforces the concept in Section 2100 that the focus of government-wide statements should be on the primary government—as opposed to its component units or the financial reporting entity as a whole. Paragraph ~~.114~~~~113~~ of this section establishes that a primary government is composed of its governmental activities and its business-type activities, and that financial statements for each of those two types of activities should be displayed. Paragraph ~~.159~~~~158~~ of this section states that the focus of governmental and proprietary fund financial statements is on *major* funds; that paragraph requires governments to separately report the financial statements or information of certain individual governmental and enterprise funds (based on quantitative measures detailed in paragraph ~~.160~~~~159~~ of this section). The significance of governmental and business-type activities and major funds is further emphasized in the note disclosure requirements in Section 2300. Paragraph .102 of Section 2300 states that the notes to financial statements “should focus on the primary government— specifically, its governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate.”

Despite the primacy of governmental activities, business-type activities, and major funds, this section nevertheless provides display requirements for *all* funds and activities. Paragraph ~~.159~~~~158~~ states that nonmajor governmental and enterprise funds should be aggregated and each aggregation should be displayed in a *single* column in the appropriate fund financial statements. In addition, paragraph ~~.173~~~~171~~ requires governments to use a *single* column in the proprietary fund financial statements to display internal service funds. Finally, paragraph ~~.200~~~~197~~ requires that fiduciary fund financial statements include a *separate* column for each type of fiduciary fund. These display requirements, while appearing to similarly require “separate” reporting, differ from those for major funds and governmental and business-type activities because they address how to report the financial statements of funds that are *outside* of the primary focuses discussed above.

The components of the remaining fund information—nonmajor funds, internal service funds, and fiduciary funds—may or may not be quantitatively material. The determination of how the data presented for those reporting units should be assessed should be based on professional judgment *considering relevant qualitative factors* and the relationship of the remaining fund reporting units to other appropriate information in the financial statements.

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For example:

- Quantitative materiality for the aggregated nonmajor (governmental or enterprise) funds or internal service funds could be based on the significance of the column compared to all governmental and proprietary funds.
- The aggregated internal service funds and the nonmajor enterprise funds also could be evaluated against all proprietary funds. Similarly, the nonmajor governmental funds column might be compared to total governmental funds.
- The quantitative materiality determination for each type of fiduciary fund could be made based on the significance of those funds to all fiduciary funds of the reporting government, or it could be based on the significance of those funds to all funds of the government.

In all cases, *qualitative* materiality aspects should be appropriately considered.

[GASBIG 2015-1, Q7.4.1, as amended by GASBS 84, ¶14–¶18]

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- .703-1 Q—For governments that prepare a CAFR, should MD&A be placed before or after the letter of transmittal?

A—Paragraph .106 of this section requires only that MD&A precede the basic financial statements; however, it should be presented as part of the financial section of a CAFR. The letter of transmittal remains a part of the introductory section. Because the scope of the letter of transmittal introduces the CAFR, and because MD&A derives from the basic financial statements and generally limits its discussion and analysis to information in those statements, a logical progression would be to move from the letter of transmittal, to MD&A, to the basic financial statements. In addition, to place the letter of transmittal between MD&A (which is RSI) and audited basic financial statements might imply a higher level of auditor involvement with the letter of transmittal than is actually the case.

[GASBIG 2015-1, Q7.5.1, as amended by GASBS XX, ¶14]

.704 Management's Discussion and Analysis (MD&A)

- .704-1 Q—Should the letter of transmittal duplicate information that is presented in MD&A?

A—Governments that prepare a CAFR will present both a letter of transmittal and MD&A. Footnote 7 of this section states: “If a letter of transmittal is

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presented in the introductory section of a CAFR, governments are encouraged not to duplicate information contained in MD&A.” There are no authoritative requirements for letter of transmittal contents. Because MD&A is *required* (as RSI) and a letter of transmittal is *optional*, governments cannot *choose* which medium to use to communicate the “duplicate” information—it should be included in MD&A.

Preparers should compose their letters of transmittal to avoid redundancy with MD&A. In areas where duplication could occur, the letter of transmittal could refer to the relevant discussion in MD&A and add insights that may go beyond the boundaries of MD&A. The letter of transmittal also provides a forum for government officials to discuss plans and other information that may not meet the “currently known facts, decisions, or conditions” criterion in paragraph .110e-109h of this section.

[GASBIG 2015-1, Q7.5.2, as amended by GASBS XX, ¶18 and fn3 and GASBIG 2016-1, Q5.10]

.704-2 Q—Is any discussion of component units in MD&A confined to comments about *individual* component units, or is a government permitted to refer to its component units in the aggregate or by groups?

A—Paragraph .109-108 of this section states that a decision to discuss component units should be based on an individual component unit’s significance and its relationship to the primary government. Thus, discussion in MD&A generally should be focused on individual component units. However, in some situations, discussion of component units in the aggregate may be appropriate. For example, a state university may have multiple fund-raising foundation component units, all of which have virtually identical relationships with the university. The reasoning behind the “individual” focus stipulated in paragraph .109-108, and in paragraph .123 of Section 2600, is that there generally is a wide variety of relationships that exist in a primary government/ component unit setting, and such variety makes discussion and analysis in the aggregate difficult.

[GASBIG 2015-1, Q7.5.3, as amended by GASBS XX, ¶17]

.704-3 Q—If a government (a single-program government or a business-type activity [BTA], for example) presents *comparative financial statements*, would the government be required to present one MD&A for the current year and a second, separate MD&A for the prior year (each with comparative data from the preceding year)?

A—No. If the government provides comparative financial statements (that is, basic financial statements and RSI are presented for both years), MD&A is required to address both years presented in the comparative financial

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statements. Completely *separate* MD&As are not required. The MD&A should provide data so that each of the two years presented in the comparative financial statements can be compared to its prior year. Therefore, there should be three years of comparative data—the current year, the prior year, and the year preceding the prior year. The related analysis should cover two periods—from the year preceding the prior year to the prior year, and from the prior year to the current year. (See Question .704-4 in this section about presenting *comparative data*.)

[GASBIG 2015-1, Q7.5.4]

.704-4 Q—If a government (engaged in both governmental and business-type activities, for example) presents *comparative data* (for example, total reporting entity columns for the current and prior years in the government-wide statements) in its basic financial statements, are the MD&A requirements in paragraph ~~.110109~~ of this section required to be met for both years presented?

A—No. If the government presents *comparative data* (as distinguished from a complete set of comparative statements, notes, and RSI), the requirements in paragraph ~~.110109~~ should be met for the *current* year (with comparisons to the prior year).

[GASBIG 2015-1, Q7.5.6, as amended by GASBS XX, ¶8]

.704-5 Q—Paragraph ~~.110109~~ of this section identifies the contents of MD&A in subparagraphs a–~~eh~~. Are governments permitted to discuss other issues, not included in the requirements of paragraph ~~.110109~~, in MD&A?

A—No. Because MD&A is regarded as *RSI*, the information presented should be limited to the areas required in subparagraphs a–~~eh~~. Nevertheless, *each* specific requirement in paragraph ~~.110109~~, if applicable, should be addressed as described in the respective subparagraphs. Some governments will provide only minimal information to meet each requirement, whereas others will provide additional analytical or descriptive data. There is no limit (other than perhaps readability) to the information that may be provided *if it provides additional details about the required elements in those subparagraphs*.

For example, a government may meet the requirements of paragraph ~~.110e109h~~ by focusing the discussion (of expected significant effects on financial position and results of operations) on its governmental and business-type activities. Governments are not required to discuss the effects as they relate to *individual functions or programs* in the statement of activities but may choose to do so depending on the specific facts and the significance of the amounts. Additionally, service efforts and accomplishments (SEA) or

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performance data, as *separate categories of information*, are not among the required contents of MD&A in paragraph .110~~109~~, and therefore should not be included. However, selected SEA or performance measures may be included in MD&A *if they provide additional details about required information*. For example, performance measures may add relevant insights into why certain operating results differ from one year to the next.

Information that does not address the required elements discussed in subparagraphs a–~~e~~^h should not be included in MD&A but may be reported as supplementary information and could be discussed in the letter of transmittal.

[GASBIG 2015-1, Q7.5.7, as amended by GASBS XX, ¶8]

.704-6 Q— ~~Paragraph 109 of this section explains what should be in MD&A and states that only the most relevant information should be included. Based upon that notion, should paragraph .109d be interpreted to mean that only major funds are required to be addressed?~~

~~A—The analysis of balances and transactions of individual funds, as required by paragraph .109d, would normally be confined to major funds. Nevertheless, governments can discuss transactions or significant changes in account balances of nonmajor funds.~~

[GASBIG 2015-1, Q7.5.8]

.704-7 Q— ~~Paragraph .109a~~ Paragraph .110a of this section requires MD&A to provide information about significant differences in the type of information ~~to assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information. How might governments meet this requirement?~~

A—The primary objective of the requirement in paragraph .110a~~109a~~ is to help ~~users~~^{readers} of MD&A understand the relationship of the results reported in the *governmental funds* financial statements to the results reported for *governmental activities* in the government-wide statements. For example, if the statement of activities reports a significant decrease in the net position of governmental activities and the fund financial statements show an increase in the fund balances of the governmental funds, MD&A should explain why that occurred. The explanation could be that significant bond proceeds were received and capital ~~outlay~~^{expenditures} were unusually low in capital project funds, or that some long-term liabilities were reported in the government-wide statements that did not affect the governmental funds. The causes of differences should be evident in the reconciliations accompanying the fund financial statements (see paragraph .160 of this section), but MD&A should provide

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an overview of that information, in narrative fashion, to meet the requirement of paragraph .110a109a. On the other hand, if the reasons for the change in net position of governmental activities and the change in fund balances of governmental funds are similar, MD&A should note that similarity.

[GASBIG 2015-1, Q7.5.9, as amended by GASBS XX, ¶18 and ¶27]

.704-78 Q—Paragraph .107 of this section encourages the use of charts and graphs in MD&A. Can the comparison of condensed financial information required by paragraph .110b109b of this section be provided with charts and graphs?

A—No. The information required by paragraph .110b109b should be presented in the form of *condensed financial statements*. Charts and graphs may be used to supplement, or elaborate on, information in the condensed statements, but should not be used *in place of* them. For example, a comparative bar graph could be used to display the net program costs of selected functions that are not apparent in the limited detail of the condensed statements of activities. Paragraph .107 further provides that the information in MD&A, including illustrative charts and graphs, should address the *positive and negative* aspects of the comparison. (See the illustrative MD&A in nonauthoritative paragraph .902 of this section.)

[GASBIG 2015-1, Q7.5.10, as amended]

~~.704-9 Q—In the discussion of significant general fund budget variances required by GASBS XX, ¶15 and ¶18] paragraph .109e, is it sufficient to state that the original budget was increased to cover higher than expected expenditures?~~

~~A—No. MD&A is required to provide an analysis of significant budget variances. The analysis should discuss reasons for those variances including those that are expected to significantly affect future services or liquidity. MD&A should explain why the variances occurred (for example, the factors that contributed to expenditures exceeding budgeted amounts). The analysis may refer the reader to discussions of those reasons presented in other sections of the MD&A.~~

~~[GASBIG 2015-1, Q7.5.11] paragraph superseded by GASBS XX, ¶14~~

.704-810 Q—Paragraph .110d(2)109f of this section requires governments to include in MD&A a discussion of *long-term debt* activity during the year. Should that discussion include special assessment debt for which the government is not obligated in any manner?

A—No. Special assessment debt for which the government is not obligated in any manner is not debt of the government (under Section S40, “Special

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Assessments,” such special assessment debt is only disclosed, not displayed) and is not required to be included in the discussion of long-term debt activity. However, such debt might be discussed in connection with capital asset activity if, for example, the proceeds were used to build or acquire significant infrastructure assets for the government.

[GASBIG 2015-1, Q7.5.12, as amended by GASBS XX, ¶18]

.704-~~911~~ Q—What are “currently known facts, decisions, or conditions” that may need to be discussed in MD&A to comply with the requirements in paragraph .~~110e-109h~~ of this section?

A—As explained in footnote 6 of this section, “currently known” means to have been aware of as of the date ~~of the~~ financial statements are issued~~auditor’s report~~. The key word in this requirement is *known*—that is, this discussion should be based on events or decisions that have already occurred or have been enacted, adopted, agreed upon, or contracted. Governments should not discuss in MD&A the *possible* effect of events that *might* happen (although such matters could be addressed in the letter of transmittal). The award and acceptance of a major grant, the adjudication of a significant lawsuit, a significant change in the property tax base, the completion of an agreement to locate a major manufacturing plant in a city, an adopted increase in a state’s sales tax rate, an approved increase in a university’s tuition, a flood that caused significant damage to a government’s infrastructure, and a renegotiated labor contract with government employees are just a few examples of facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations. On the other hand, predicting how much sales tax revenues would increase if a planned shopping mall is built or that a data-processing system under consideration “will pay for itself” over a certain period of time would be examples of statements that are *not* based on currently known facts, decisions, or conditions.

In some instances, issues discussed in MD&A as “currently known facts” will also be disclosed in the notes to the financial statements as subsequent events or contingencies. The discussion in MD&A should highlight but not repeat the information required to be disclosed in the notes.

[GASBIG 2015-1, Q7.5.13, as amended by GASBS XX, ¶18 and fn2]

.704-~~1012~~ Q—Paragraph .~~110e-109h~~ of this section requires a discussion of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or that are expected to produce significant differences from current period results of operations (revenues, expenses, and other changes in net position). Should that discussion separately address the expected effect on governmental and business-type activities?

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A—Yes. Paragraph ~~.110c(1)~~~~109e~~ requires that the analysis of the government's overall financial position and results of operations should separately address both governmental and business-type activities. The requirement in paragraph ~~.110e~~~~109h~~ should have the same focus; that is, the discussion should address expected effects on both governmental and business-type activities.

[GASBIG 2015-1, Q7.5.14, as amended by GASBS XX, ¶18]

~~.704-1113~~ Q—Paragraph .106a(1) of Section 2300 requires governments to provide a description of the government-wide statements in the summary of significant accounting policies. How does this disclosure differ from the requirement in paragraph ~~.110a~~~~109a~~ of this section to include in MD&A an overview ~~a brief discussion~~ of the basic financial statements?

A—The requirement for additional significant accounting policies disclosure in paragraph .106a(1) of Section 2300 relates only to the government-wide statements and essentially calls for descriptive comments about the purposes and scope of the statements of net position and activities. For example, this disclosure could address:

- What are governmental and business-type activities
- The absence of fiduciary funds, including fiduciary component units
- What are the components of net position
- What are the key elements of the statement of activities.

The MD&A discussion required by paragraph ~~.110a~~~~109a~~ of this section relates to *both* government-wide *and* fund statements and is oriented more toward the *relationship* of government-wide statements to fund financial statements.

[GASBIG 2015-1, Q7.84.1, as amended by GASBS 84, ¶15 and GASBS XX, ¶18]

.705 Basic Financial Statements—Government-Wide Statements

No questions assigned.

.706 Focus of the Government-Wide Financial Statements

.706-1 Q—Is a total column for the primary government required?

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A—Yes. Paragraph ~~.113.112~~ of this section states that a total column for the primary government is required in the government-wide financial statements. A total column for the reporting entity may be presented but is not required.

[GASBIG 2015-1, Q4.13.1]

.706-2 Q—Is a reporting entity with no component units required to identify the columns on the financial statements as being those of a primary government?

A—No. Paragraph .105 of Section 2600 requires that the financial statements of the reporting entity distinguish between the primary government and its component units. There would be no need for identification of the columns as being those of the primary government if there are no component unit columns.

[GASBIG 2015-1, Q4.28.6]

.706-3 Q—Paragraph ~~.113.112~~ of this section states that prior-year data may be presented in the government-wide statements. What information should be presented if a government chooses to provide prior-year data?

A—Comparative data are not *required*, but *may* be provided—so there is no specific presentation that *should* be made. The practicality of presenting prior-year information is often a function of the complexity of the reporting government. A government with only governmental or business-type activities and no component units could provide a side-by-side single-column comparison in the statement of net position. At the other extreme, a government with both governmental and business-type activities and component units (and the required total column for the primary government) would have to add at least four columns to offer a full comparison, or add a total column for the reporting entity (optional) and its counterpart from the prior year to provide for a reporting entity comparison.

Presenting comparative data for the statement of activities again depends on the complexity of the operations of the reporting government. A government with only governmental activities and no component units could add a prior-year “net (expense) revenue and changes in net position” column. However, the comparison becomes more difficult and space-consuming as more columns are presented (governmental activities, business-type activities, total primary government, and component units) for the current year.

Governments with complex structures and operations may find that the most useful comparisons (especially for the statement of activities) can be made only if the prior-year statements are reproduced and included with the

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current-year statements of net position and activities. In all cases, the prior-year information should be clearly identified and distinguished from the current-year statements. (See Questions .704-3 and .704-4 in this section about comparative information in MD&A.)

[GASBIG 2015-1, Q7.7.1]

- .706-4 Q—In the statement of activities, can the reporting government combine as a single function (higher education, for example) the data of the primary government and a discretely presented component unit?

A—No. Paragraph .105 of Section 2600 requires that financial statements of the reporting entity provide an overview of the entity, yet allow users to distinguish between the primary government and its component units. Even though this combined “single-function” approach would report the net (expense) revenue of the component unit in a separate column, users would not be able to distinguish between the expenses and program revenues of the primary government and its component units. Paragraph ~~.113~~~~.112~~ of this section expands the meaning of discrete presentation to cover separate rows as well as columns. It states, “Separate rows and columns should be used to distinguish between the total primary government and its discretely presented component units.”

[GASBIG 2015-1, Q7.7.3]

- .706-5 Q—Can activities that are accounted for in enterprise *funds*—a transit system, for example—be reported as governmental activities in the government-wide statements?

A—Yes. The terms *activity* and *fund* are not synonymous; that is, “activity” generally refers to programs or services, whereas a “fund” is an accounting and reporting device. A single fund could account for several activities and a single activity could be accounted for in multiple funds. As indicated in paragraph ~~.114~~~~.113~~ of this section, the statement of activities *usually* follows the categorizations used in the fund financial statements—governmental activities are those that usually are accounted for in governmental funds, and business-type activities are those that usually are accounted for in enterprise funds. Nevertheless, governments can realign their activities if they believe that this would more faithfully represent their operating objectives and philosophies. The reconciliations from the governmental and enterprise fund financial statements to the government-wide statements would explain the reclassification.

[GASBIG 2015-1, Q7.7.4]

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.706-6 Q—Can an activity accounted for in an enterprise fund be combined with activities accounted for in governmental funds and reported as governmental activities in the government-wide statements? For example, can a city combine its parks department (accounted for in the general fund) and its driving range enterprise fund as a *parks and recreation* governmental program in the statement of activities?

A—Yes, *if* the minimum requirements in paragraph ~~.128127~~ of this section are satisfied. That paragraph provides that activities accounted for in governmental funds should be presented at least at the level of detail required in the governmental fund statement of short-term financial resource flows~~revenues, expenditures, and changes in fund balances~~, and that activities accounted for in enterprise funds should be presented by different identifiable activities. Therefore, the city could combine its parks department and its driving range operation as a single governmental program unless the driving range is a different identifiable activity or the “parks department” is a required functional category in the fund financial statements. Nevertheless, if the paragraph ~~.128127~~ requirements prohibit combination, both items could be *separately reported* as governmental activities under a “parks and recreation” heading. The reconciliations from the governmental and enterprise fund financial statements to the government-wide statements would explain the reclassification of the driving range enterprise fund.

[GASBIG 2015-1, Q7.7.5, as amended by GASBS XX, ¶11]

.707 Reporting Capital Assets

No questions assigned.

.708 Required Financial Statements—Statement of Net Position

.708-1 Q—Can the statement of net position be presented in a classified format, similar to what is required for enterprise funds?

A—Yes. Governments are *encouraged* to present assets and liabilities in order of their relative liquidity but may, instead, use the classified format, which distinguishes between all current and long-term assets and liabilities. If the classified format is used, a government is not required to distinguish between current and long-term deferred outflows of resources and deferred inflows of resources. Exhibit 1 in nonauthoritative paragraph .905 of this section illustrates a classified format.

[GASBIG 2015-1, Q7.22.1]

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.708-2 Q—If a government elects to use the classified format in its government-wide statement of net position, is it required to separately display restricted assets of governmental activities?

A—This section does not require *separate presentation* of restricted assets in the government-wide statement of net position for either governmental activities or business-type activities; however, the decision to use the classified format may result in the presentation of a portion of restricted assets as “noncurrent.” The classified format distinguishes between current and noncurrent assets and liabilities as defined in paragraphs ~~.176-.192~~~~174-190~~ of this section. One of the requirements of that approach is that current assets should *exclude* assets that will not be used in current operations, are restricted for acquisition or construction of noncurrent assets, or are restricted for liquidation of long-term debt.

Resources accounted for in the general fund, special ~~resources~~~~revenue~~ funds, and debt service funds are generally expected to be used in current operations or to liquidate current obligations and thus generally would be considered current assets. Conversely, a portion of the resources accounted for in capital projects funds and permanent funds may meet the criteria for assets that should not be reported as current assets. (Question .708-3 in this section discusses reporting restricted assets when the “order of liquidity” format is used.)

[GASBIG 2015-1, Q7.22.2, as amended by GASBS XX, ¶28]

.708-3 Q—If the “order of liquidity” approach is used in the statement of net position, where should *restricted assets* be reported?

A—Paragraph ~~.117~~~~116~~ of this section indicates that an asset’s *liquidity* is affected by restrictions that may limit the government’s ability to use it. If the restrictions are short-lived—for example, cash that is held in a bond and interest reserve account that is required to be used to pay current maturities—the cash could be reported with unrestricted cash. On the other hand, if the conditions underlying the restrictions are such that they will not be met in the short or medium term, restricted assets would be reported lower (as less liquid) in the statement of net position. Permanently restricted resources, for example, are essentially as illiquid as capital assets. Term restrictions may indicate that the assets should be reported at approximately the same liquidity level as long-term receivables, depending on the length of the restrictions. (See Question .746-2 of this section about how to report restricted assets using a “classified” approach in a proprietary fund statement of net position. See also Question .708-2 in this section about how to

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report restricted assets of governmental activities in the government-wide statement of net position using the classified format.)

[GASBIG 2015-1, Q7.22.3]

.708-4 Q—Paragraph ~~.117-116~~ of this section and paragraph .120 of Section 2300 require governments to report and disclose the portion of compensated absences that is “due within one year of the statement date.” How should governments determine when compensated absences are “due”?

A—Compensated absences liabilities become “due” upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Because these occurrences and related dollar amounts generally cannot be known reliably in advance, the portion of compensated absences due within one year should be estimated. The estimate could be based on such factors as historical trends or budgeted amounts and may be affected by other factors including the government’s policy regarding whether unused amounts from prior years are required to be used before amounts earned in the current period.

[GASBIG 2015-1, Q7.22.4]

.708-5 Q—If a government reports a liability to employees for defined benefit pensions or defined benefit OPEB in its government-wide statement of net position, how is the “amount due within one year” determined?

A—If the government reports a pension or OPEB liability to employees under Section P20, Section P22, Section P50, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit,” or Section P52, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Benefit,” the amount of the pension or OPEB liability that is “due” within one year is the amount of benefit payments expected to be paid within one year, net of the pension or OPEB plan’s fiduciary net position, if any, available to pay that amount. Therefore, for a pension liability to employees reported under Section P20, or for an OPEB liability to employees reported under Section P50, there would be no amount that is “due” within one year unless the pension or OPEB plan’s fiduciary net position is less than the amount of benefit payments expected to be paid within one year. For a pension liability to employees reported under Section P22 or an OPEB liability to employees reported under Section P52, there is no pension or OPEB plan fiduciary net position; therefore, the amount “due” within one year would be the full amount of benefit payments expected to be paid within one year.

[GASBIG 2015-1, Q7.22.6, as amended by GASBIG 2016-1, Q5.13 and GASBIG 2017-1, Q5.31]

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.708-6 Q—What are the requirements and limitations for reporting the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide statement of net position?

A—The difference between a government’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is its *net position*. Terms such as *equity*, *net worth*, or *fund balance* should not be used in the statement of net position. Net position should be displayed in three components— *net investment in capital assets*, *restricted*, and *unrestricted*, based on paragraph .118117 of this section. Commitments and assignments of fund balances in governmental funds should not be reported on the face of the statement of net position. The amount of net position restricted by enabling legislation, if any, should be disclosed in the notes to the financial statements.

[GASBIG 2015-1, Q7.22.7]

.708-7 Q—A government accrues and reports a long-term liability for accretion of interest on deep-discount (capital appreciation) debt that was issued for the construction of general governmental capital assets. Which component of net position should be reduced by the liability?

A—Accrued interest on any capital-related debt, including deep-discount debt, generally should not be included in the computation of the *net investment in capital assets* component of net position. The amount of the “borrowing attributable to the acquisition, construction, or improvement” of a capital asset is the proceeds, rather than the total amount, including interest, that will be paid at maturity. Generally, the accrued interest liability would be included in unrestricted net position. However, if the government has established a “sinking” fund to accumulate cash to pay off the debt at maturity, the accrued interest would be included in (reduce) the same component of net position as the sinking fund resources.

[GASBIG 2015-1, Q7.22.9]

.708-8 Q—A government that operates a municipal solid waste landfill reports a liability for closure and postclosure care in accordance with the requirements of Section L10, “Landfill Closure and Postclosure Care Costs.” Should some or all of the liability be considered “capital-related debt” for purposes of calculating the net position components?

A—No. Paragraph .107 of Section L10 states that equipment and facilities included in the estimated total current cost of closure and postclosure care should not be reported as capital assets but, rather, should be reported as a reduction of the accrued liability for municipal solid waste landfill closure and postclosure care when they are acquired. Therefore, because the closure and postclosure liability already has been reduced by the cost of capital assets acquired,

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the remaining liability cannot be attributed to the purchase or construction of capital assets. The liability would be included in the calculation of unrestricted net position, or if the liability is funded and the assets are restricted, it would reduce restricted net position.

[GASBIG 2015-1, Q7.22.15]

.708-9 Q—In which component of net position should *capital* assets with externally imposed restrictions (for example, federal surplus property) be reported?

A—All capital assets, including those that are subject to restrictions, should be included in the *net investment in capital assets* component of net position. The requirement to segregate restricted and unrestricted components of net position was established primarily to provide information about the availability of *financial* resources.

[GASBIG 2015-1, Q7.23.1]

.708-10 Q—A government issues bonds late in the year to purchase capital assets. The proceeds are received, but no capital assets have been purchased as of the short-term financial resources balance sheet date. Which component of net position should include the debt?

A—If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should *not* be included in the calculation of the *net investment in capital assets* component of net position. Rather, that portion of the debt should be included in the same net position component as the unspent proceeds—for example, *restricted for capital projects*. Therefore, if no capital assets have been purchased or constructed from the debt proceeds, the entire amount of the debt would reduce *net position restricted for capital projects*. If some capital assets have been purchased or constructed from the debt proceeds, that portion of the debt would be considered “capital-related.” The remainder—the unspent portion of the debt—would be included in the calculation of *net position restricted for capital projects*. Generally, the effect on net position will be negligible—restricted cash will approximate related debt outstanding. Reporting both within the same classification of net position prevents one classification from being overstated while another is understated by a similar amount.

[GASBIG 2015-1, Q7.23.2, as amended by GASBS XX, ¶11]

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.708-11 Q—Which component(s) of net position do prepaid bond insurance costs, premiums and discounts, and deferred outflows of resources or deferred inflows of resources from refundings affect—net investment in capital assets, restricted, or unrestricted?

A—Premiums, discounts, and deferred outflows of resources or deferred inflows of resources from refundings “follow the debt” in calculating the components of net position. That is, if debt is capital-related, those amounts would be included in the calculation of the *net investment in capital assets* component of net position. If the debt is restricted for a specific purpose and the proceeds are unspent, the net proceeds would affect the *restricted* component of net position. Reporting both within the same component of net position prevents one classification from being overstated while another is understated by the same amount. If the debt proceeds are not restricted for capital or other purposes, the unamortized premiums, discounts, and deferred outflows of resources or deferred inflows of resources from refundings would be included in the calculation of unrestricted net position.

Prepaid bond insurance costs should be included in the unrestricted component of net position because those outlays do not acquire, construct, or improve capital assets. If the prepaid bond insurance costs were paid from bond proceeds, the portion of outstanding debt attributable to those insurance costs also should be included in the unrestricted component of net position.

[GASBIG 2015-1, Q7.23.3]

.708-12 Q—A general purpose government issues bonds to construct school buildings for the school districts within its geographic boundaries. The bonds are a liability of the issuing government, but the buildings will be reported as capital assets of the respective legally separate school districts. Which component of the government’s net position should be reduced by the long-term debt?

A—The issuing government acquires no capital assets; therefore, the debt is not “capital-related.” The effect of the noncapital debt should be reflected in the *unrestricted* component of the government’s net position. The fact that the bonds are related to capital assets of another entity does not make the debt “capital” debt of the issuing government—even though the assets acquired may benefit its residents. The government has incurred a liability, decreasing its net position, with no corresponding increase in its capital or financial assets. The effect on the government’s total net position should be the same regardless of whether it (1) gave the school districts cash from existing resources, (2) constructed the buildings and donated them to the

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schools, or (3) issued debt to finance the construction. In all three instances, the government has decreased its net position.

If the effect on unrestricted net position is significant, the government may disclose additional details of unrestricted net position in the notes to the financial statements to isolate the effect of debt issued for others. The government may also address these circumstances in MD&A as part of either the net position or debt discussions.

[GASBIG 2015-1, Q7.23.10]

.708-13 Q—Which component of net position should include an equity interest in a joint venture?

A—An equity interest in a joint venture that is reported as an asset in the government-wide statement of net position (or as an asset of an enterprise fund) should be included in the computation of the unrestricted component of net position. An equity interest in a joint venture is generally not restricted, as defined in paragraph .120119 of this section, nor is it a capital asset, even though it may represent equity primarily in capital assets of the joint venture. (See Question .706-2 in Section J50 about governmental fund reporting.)

[GASBIG 2015-1, Q7.25.1]

.708-14 Q—Can a deferred outflow of resources be combined with a deferred inflow of resources and reported as a net amount if the underlying transactions are similar? For example, can a deferred *outflow* of resources arising from an effective hedging arrangement be combined with a deferred *inflow* of resources arising from an effective hedging arrangement?

A—Paragraph .1167 of this section ~~Statement 63~~ requires presentation in separate sections. In the example in this question, unless there is a specific right of offset provision in the hedging arrangements, the deferred amounts should be classified separately. (See Questions .718-3 and .718-4 in Section P20 [for single and agent employers], Questions .732-1, .747-3, and .747-4 in Section P20 [for cost-sharing employers], Question .762-1 in Section P20 [for single and agent employers that have a special funding situation], and Question .776-1 in Section P20 [for governmental nonemployer contributing entities in a special funding situation] for discussion of the application of the provisions of Section P20 with regard to reporting deferred outflows of resources and deferred inflows of resources related to pensions.)

[GASBIG 2015-1, QZ.63.1]

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.709 Net Investment in Capital Assets

.709-1 Q—A county government issues debt to finance the construction of school facilities for the local school district, a discretely presented component unit of the county. The county reports the debt and the school district reports the capital assets (see Question .702-2 in Section 1500 and Question .708-12 in this section); therefore, the debt is not considered to be “capital-related” debt of the county. In the reporting entity financial statements, if the county elects to present an optional “reporting entity” total column, can the debt be reported as capital debt in that total column?

A—Yes. When the total reporting entity is presented as the reporting unit, the debt is related to capital assets within that reporting unit. Consequently, the *unrestricted* component of net position and the *net investment in capital assets* component of net position of the reporting entity are not equal to a simple combination of those net position components of the primary government and its component units. An explanation of the reclassification could be presented in the notes to the financial statements.

[GASBIG 2015-1, Q7.7.6]

.709-2 Q—A government that operates a municipal solid waste landfill reports a liability for closure and postclosure care in accordance with the requirements of Section L10. Should some or all of the liability be considered “capital-related debt” for purposes of calculating the net position components?

A—No. Paragraph .107 of Section L10 states that equipment and facilities included in the estimated total current cost of closure and postclosure care should not be reported as capital assets but, rather, should be reported as a reduction of the accrued liability for municipal solid waste landfill closure and postclosure care when they are acquired. Therefore, because the closure and postclosure liability already has been reduced by the cost of capital assets acquired, the remaining liability cannot be attributed to the purchase or construction of capital assets. The liability would be included in the calculation of unrestricted net position, or if the liability is funded and the assets are restricted, it would reduce restricted net position.

[GASBIG 2015-1, Q7.22.15]

.709-3 Q—In which component of net position should *capital* assets with externally imposed restrictions (for example, federal surplus property) be reported?

A—All capital assets, including those that are subject to restrictions, should be included in the *net investment in capital assets* component of net position.

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The requirement to segregate restricted and unrestricted components of net position was established primarily to provide information about the availability of *financial* resources.

[GASBIG 2015-1, Q7.23.1]

.709-4 Q—How is the “unspent portion” of capital debt proceeds determined?

A—The precision with which the unspent proceeds can be determined depends on the government’s accounting records. Most governments are required to, or choose to, account for bond issues separately—either in separate funds or in an account or memorandum fashion in a multipurpose fund— and can identify what has been spent and what remains. Those governments whose accounting systems do not lend themselves to that type of specific tracking should use their best estimates—in a manner that can be documented—to determine the unspent portion.

[GASBIG 2015-1, Q7.23.4]

.709-5 Q—Often, debt is issued for capital purposes, but some of the proceeds are spent for assets that are not capitalized. Should some of the debt be removed from the *net investment in capital assets* component of net position?

A—Governments are not expected to categorize all uses of bond proceeds to determine how much of the debt actually relates to assets that have been capitalized. Unless a significant portion of the debt proceeds is spent for noncapitalizable purposes, the entire amount could be considered “capital-related.”

[GASBIG 2015-1, Q7.23.5]

.709-6 Q—If debt is issued to refund existing capital-related debt, is the new debt also considered capital-related?

A—Yes. Even though the direct connection between the capital assets and the debt issued to finance the construction or acquisition has been eliminated, the replacement debt assumes the capital characteristics of the original issue. However, if the new issue is refunding capital appreciation debt, only the portion of the new debt that refunds the original principal of the old debt should be considered capital-related. (See Question .708-7 in this section about capital appreciation debt.)

[GASBIG 2015-1, Q7.23.6, as amended by GASBIG 2016-1, Q5.14]

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.709-7 Q—If a government has capital assets, but no related debt or deferred inflows of resources, may the net position account be titled “investment in capital assets”?

A—Yes. The net position title “net investment in capital assets” denotes that there is capital debt or deferred inflows of resources and may mislead readers if used when there is no debt or deferred inflows of resources.

[GASBIG 2015-1, Q7.23.7]

.709-8 Q—Should capital debt that is related to capital assets that are not being reported, as might occur prior to retroactively reporting infrastructure or for phase 3 governments that choose not to retroactively report infrastructure, be classified in the *net investment in capital assets* component of net position?

A—Yes. The *net investment in capital assets* component of net position should include all debt associated with the reporting government’s capital assets. (See Question .709-9 in this section about reporting negative net position.)

[GASBIG 2015-1, Q7.23.8]

.709-9 Q—If outstanding capital debt exceeds the carrying value of capital assets reported, what caption should be used for the net position component?

A—The account title “net investment in capital assets” should be used, even if the amount is negative. Reporting in that manner informs the financial statement reader that there is capital debt.

[GASBIG 2015-1, Q7.23.9]

.709-10 Q—A government made an interfund loan from its general fund to an enterprise fund for the purpose of purchasing capital assets. Does the advance due to the general fund constitute capital-related debt in the enterprise fund?

A—No. Interfund advances are not considered debt or other borrowing for purposes of calculating the net position components. Interfund balances are included in the computation of unrestricted net position. (See also Question .709-15 in this section about reclassified balances with blended component units.)

[GASBIG 2015-1, Q7.23.11]

.709-11 Q—A discretely presented component unit issued highway construction bonds and remitted the proceeds to the primary government. The primary

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government used the proceeds to construct new infrastructure assets. The bonds are a liability of the component unit and are secured by, and payable solely from, annual appropriations from the primary government. The primary government has pledged certain of its future federal transportation revenues to provide the resources for the annual appropriations. Should the bonds be regarded as capital-related debt of the component unit?

A—No. The bonds do not represent capital-related debt of the component unit because it did not use the proceeds to acquire, construct, or improve the component unit's capital assets. The primary government should report the proceeds received as a liability to the component unit because it is obligated to repay the component unit with the pledged future revenues. The primary government should consider the liability to the component unit as capital-related debt, to the extent that the proceeds have been spent on highway construction. Unspent proceeds would be a factor in calculating restricted net position. The bonds payable reported by the component unit should be considered noncapital (and, therefore, enter into the calculation of unrestricted net position) because the proceeds were used to acquire the receivable from the primary government, rather than capital assets. (See Question .709-1 in this section about reporting entity display options and Question .709-15 in this section about reclassified balances with blended component units.)

[GASBIG 2015-1, Q7.23.12]

.709-12 Q—Should construction retainages payable be considered capital-related debt for purposes of calculating the *net investment in capital assets* component of net position?

A—A retainage payable represents a liability attributable to the acquisition, construction, or improvement of capital assets (in this case, construction in progress) and retainage liabilities should be included in the calculation of the net investment in capital assets component of net position calculation. (See also Question .709-13 in this section about projects financed with bond proceeds.)

[GASBIG 2015-1, Q7.23.13]

.709-13 Q—Is the answer to Question .709-12 in this section the same if the construction project is financed with bond proceeds?

A—Yes. If the project is financed with bond proceeds, the amount of the retainage is attributed to the construction in progress, and would be included in the net investment in capital assets component of net position. The unspent bond proceeds together with the portion of the debt attributable

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to the unspent proceeds would be included in the restricted component of net position calculation. (Generally, debt issuance does not create net position; therefore, a portion of the debt will be netted against remaining investments.) Thus, “capital-related debt” in this situation includes the portion of the bonds payable that has been spent on the capital construction, plus retainages and accounts payable attributable to that construction.

[GASBIG 2015-1, Q7.23.14]

- .709-14 Q—A government issues crossover refunding bonds to refund capital-related debt. In a crossover refunding, both the refunded debt and the refunding issued debt are reported on the statement of net position until the crossover date. In calculating net position, are both the refunded and refunding debt included in “net investment in capital assets” or should the refunding bonds be netted against the restricted assets that are set aside for refunding the old bonds on the crossover date?

A—The refunding debt is not capital related until it refunds (defeases) the old debt, which normally occurs at the crossover date. Prior to that time, the refunding debt likely would not significantly affect net position because the refunding bond liability would generally equal the remaining cash and investments associated with the refunding bond proceeds. At the defeasance of the old debt, the refunding debt takes on the characteristics of the old debt and would be included in the calculation of “net investment in capital assets.”

[GASBIG 2015-1, Q7.23.15]

- .709-15 Q—A primary government that is a BTA consists of several enterprise funds and includes its financing authority as a blended component unit (as an additional enterprise fund) in its financial reporting entity. The blended component unit issued bonds and loaned the proceeds to the primary government for constructing and acquiring capital assets. In its separate financial statements, the financing authority reports the bonds payable and recognizes a loan receivable from the primary government. Accordingly, the primary government recognizes a loan payable to the component unit as a liability and the capital assets acquired and constructed with the proceeds of the loan as assets. When the component unit is blended into the financial reporting entity as a separate enterprise fund, the loan receivable from the primary government and loan payable to the component unit are reclassified as internal balances, as required by paragraph 156155 of this section. For purposes of classifying net position within the reporting entity, does the primary government or the blended component unit have “capital-related” debt?

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A—The primary government’s enterprise fund, in which the capital assets are reported, should consider the loan payable to the component unit as capital-related debt, even though, for presentation purposes, the debt has been reclassified as an internal balance. The blended component unit should regard the bonds payable as noncapital debt because the proceeds were used to acquire the receivable from the primary government, rather than capital assets. (See Question .709-11 in this section.) That conclusion differs from the answer to Question .709-10 in this section, which addresses an interfund advance within the same legal entity, rather than a borrowing between legally separate entities that has been reclassified. (See Question .704-11 in Section 2600 regarding eliminations.)

[GASBIG 2015-1, Q7.23.16]

- .709-16 Q—Restricted assets have been accumulated to pay the current maturity of bonds payable that are classified as capital-related debt. Which component of net position should the current portion of the debt reduce— restricted net position or the net investment in capital assets component of net position?

A—Bonds issued for the acquisition, construction, or improvement of capital assets should be regarded as capital-related debt. Despite the fact, in this example, that financial resources have been set aside in a restricted account to pay the current installment, the debt meets the definition of capital-related debt and should be treated as such in the calculation of the net position components.

[GASBIG 2015-1, Q7.24.2]

- .709-17 Q—A government issues bonds for capital construction but is required by the bond indenture to establish a bond and interest reserve from the proceeds. The cash and investments in the bond and interest reserve are included in the calculation of restricted net position. Should the portion of the debt attributable to the establishment of the reserve be included in the calculation of the *net investment in capital assets* or *restricted* component of net position?

A—The restricted component. Because the resources initially deposited into the reserve account represent proceeds of debt that were not “attributable to the acquisition, construction, or improvement” of capital assets, that portion of the debt should be included in the calculation of restricted net position. The resources in the reserve constitute *unspent proceeds*. If there are accumulated earnings from investing the resources in the reserve account, they should be included in the calculation of either restricted net position or unrestricted net position, as appropriate. (See also Questions .708-10 and

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.709-4 in this section about treatment of unspent proceeds and Question
.710-6 in this section about liabilities related to restricted assets.)

[GASBIG 2015-1, Q7.24.25]

.710 Restricted Component of NetPosition

.710-1 Q—Net position is reported in three components. (See Question .708-6 in
this section.) Paragraphs ~~.118117~~ and ~~.124123~~ of this section also set forth
reporting requirements for supporting details of restricted net position. Can
those details (major categories, expendable/nonexpendable) be provided
in the notes?

A—No. Paragraphs ~~.118117~~ and ~~.124123~~ both state that the information
should be *displayed*; therefore, disclosure is not an option. However,
paragraph ~~.120119~~ of this section requires that the amount of net position
restricted by enabling legislation be disclosed in the notes to the financial
statements. (See Question .708-12 in this section about disclosing
unrestricted net position details that are *not* required.)

[GASBIG 2015-1, Q7.22.8]

.710-2 Q—When should net position be reported as restricted?

A—Restricted net position, as defined in paragraph ~~.120119~~ of this section,
should be reported when constraints placed on net position use are either:

- a. Externally imposed by creditors (such as through debt covenants),
grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling
legislation.

The basic concept is that restrictions are not unilaterally established by the
reporting government itself and cannot be removed without the consent of
those imposing the restrictions or through formal due process.

The definition of *restricted* in paragraph ~~.120119~~ is intended to identify
resources that were received or earned by the government with an
explicit understanding between the government and the resource providers
that the funds would be used for a specific purpose. For example, grants,
contributions, and donations are often given under those kinds of
conditions. Bond indentures similarly limit the use of proceeds.

[GASBIG 2015-1, Q7.24.1]

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.710-3 Q—Restricted assets have been accumulated to pay the current maturity of bonds payable that are classified as capital-related debt. Which component of net position should the current portion of the debt reduce— restricted net position or the net investment in capital assets component of net position?

A—Bonds issued for the acquisition, construction, or improvement of capital assets should be regarded as capital-related debt. Despite the fact, in this example, that financial resources have been set aside in a restricted account to pay the current installment, the debt meets the definition of capital-related debt and should be treated as such in the calculation of the net position components.

[GASBIG 2015-1, Q7.24.2]

.710-4 Q—How precise should the specific purpose be for resources to be considered *restricted* in the statement of net position?

A—The determination of whether resources should be classified as restricted in the government-wide statement of net position begins at the fund level. The purpose can be broad or narrow and still be considered restricted, as long as the constraints meet the definition in paragraph ~~120119~~ of this section. However, the purpose should not be so broad that, in substance, it establishes no purpose restrictions narrower than the general restriction of the activity. For instance, resources that are required to be used for “governmental activities” are not considered restricted in the general fund. Similarly, resources that are required by a rate-payer agreement to be used only for “water and sewer fund purposes” should not be classified as restricted in the water and sewer fund. (See Question .710-7 in this section about reporting restricted net position for business-type activities.)

[GASBIG 2015-1, Q7.24.4]

.710-5 Q—A general state statute pertaining to local government finances requires that “revenues derived from a fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.” If certain fees of a local government in that state have been charged for the purpose of future infrastructure replacement, should those accumulated fees be reported as *restricted net position* in the statement of net position?

A—Yes. The general statute applies to all jurisdictions in the state and creates a legally enforceable restriction on the use of resources raised through

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fees and charges. Therefore, in this example, the residual net position should be displayed in a restricted net position account.

[GASBIG 2015-1, Q7.24.5]

.710-6 Q— Does the restricted component of net position represent only restricted assets, or do liabilities or deferred inflows of resources *related to those* assets affect the balance?

A—The restricted component of net position represents restricted assets reduced by liabilities, as well as deferred inflows of resources, related to those assets. Generally, a liability relates to restricted assets if the assets result from incurring the liability or if the liability will be liquidated with the restricted assets. (Nonauthoritative paragraph .903 of Section 1800 illustrates the calculation of net position components for governmental activities. See also Question .710-3 in this section regarding the current maturities of capital debt that will be liquidated with restricted assets and Questions .710-9, .712-7, and .712-8 in this section regarding reporting of restricted assets.)

[GASBIG 2015-1, Q7.24.7, as amended by GASBIG 2018-1, Q5.6]

.710-7 Q—In computing the restricted component of net position, are governments required to “close” nominal accounts into that component? That is, is it necessary to account for the change in the net position balance by adding restricted revenues and deducting expenses incurred for the specified purposes?

A—No. This section follows a change in the *total net position* approach and does not require presentation of a statement of changes in the *components* of net position, nor does it require disclosure of the changes in restricted net position. The concept of restricted net position focuses on balances rather than transactions. *Restricted net position* is composed of restricted assets, reduced by reported claims against those assets. Therefore, if a government has net position at year-end that is *subject to a legally enforceable restriction on its use*, that net position should be reported as restricted in the statement of net position. (See Question .712-3 in this section about the effect of using restricted resources for other purposes.)

[GASBIG 2015-1, Q7.24.8]

.710-8 Q—A state legislature passes a law to “earmark” a percentage of the state’s sales tax revenues for a specific purpose. Does this action constitute enabling legislation that would restrict components of net position in the state’s financial statements?

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A—No. “Earmarking” an existing revenue is not equivalent to enabling legislation. The state legislature’s action constitutes a commitment rather than a restriction for financial reporting purposes. The limitations can be removed by an equivalent action of the legislature.

The enabling legislation part of the definition in paragraph ~~.120119~~ of this section covers situations when the government passes a law that gives it the ability to levy a tax or otherwise raise revenues, and *in that law*, the government states that it will use those resources for a particular purpose. That arrangement is tantamount to a legally binding agreement between the government and the resource providers (the taxpayers) establishing limitations on how those funds can be used. The government generally cannot unilaterally decide to do something else with those resources. Furthermore, the government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use the resources only for the purposes specified by the enabling legislation. (See Question .712-2 in this section about subsequent amendments to enabling legislation.) This is different from situations when a government passes a law that says the use of existing resources is limited to a specific purpose or “earmarks” a portion of an existing revenue source. In those two situations the government does not obtain funds under restrictive conditions; thus, the limitations imposed do not create restrictions. (See Questions .718-2 and .718-3 in this section about reporting restricted general revenues.)

[GASBIG 2015-1, Q7.24.11]

.710-9 Q—Can restricted net position be reported as a negative amount?

A—No. Negative amounts should not be reported for any category of restricted net position. If liabilities and deferred inflows of resources that relate to specific restricted assets exceed those assets, no restricted component of net position should be reported—the net negative amount should reduce unrestricted net position. Restricted net position is intended to portray, at the date of the statement of net position, the extent to which the government has assets that can only be used for specific purposes (after recognizing the specific liabilities that will be liquidated with those assets, or the specific liabilities and deferred inflows of resources from which the assets resulted). If the related liabilities and deferred inflows of resources exceed the assets on hand, the “shortfall” by default is covered by unrestricted assets. (See also Questions .710-6 and .710-7 in this section and nonauthoritative paragraph .903 of Section 1800.)

[GASBIG 2015-1, Q7.24.13]

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.710-10 Q—Paragraph ~~.118~~¹¹⁷ of this section requires that restricted net position be reported by major categories of restrictions. Furthermore, paragraph ~~.120~~¹¹⁹ of this section states that the amount of a primary government's net position restricted by enabling legislation should be disclosed in the notes to the financial statements. Should the net position restricted by enabling legislation be disclosed using the major categories displayed in the government-wide statement of net position?

A—A government may choose to disclose net position restricted by enabling legislation by major categories of restrictions. Likewise, a government may elect to disclose net position restricted by enabling legislation separately for governmental and business-type activities. However, it is acceptable to disclose a single amount for the primary government. If the government does not have net position restricted by enabling legislation, no disclosure is required.

[GASBIG 2015-1, Q7.24.16]

.710-11 Q—A city council passes legislation that places a proposition on the ballot to install parking meters in city-owned parking lots and utilize the proceeds only for repairing and maintaining those lots. The ballot proposition is approved by a majority vote at a subsequent public election. Should the resources generated by the parking meters be disclosed in the notes to the financial statements as net position restricted by enabling legislation?

A—No. Although the resources should be reported as restricted net position, they are not restricted by enabling legislation. The voters' approval of the ballot measure is the act that authorizes the installation of the parking meters and restricts the use of the proceeds; the legislation passed by the city council placed the proposition on the ballot, but the approval of the ballot measure authorized the imposition of parking fees. Consequently, the limitation on the use of the proceeds was imposed by parties outside of the reporting government and qualifies as a restriction under paragraph ~~.120a~~^{119a} of this section, rather than paragraph ~~.120b~~^{119b}.

[GASBIG 2015-1, Q7.24.21]

.710-12 Q—A state passes a law allowing local governments to levy a special property tax, the proceeds of which can only be used to pay tort liabilities. If a local government levies the tax, should the revenues be disclosed in the notes to the financial statements as net position restricted by enabling legislation?

A—No. Although the resources should be reported as restricted net position, they are not restricted by enabling legislation. The local legislation that

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levies the special property tax may specify that the tax can only be used to pay tort liabilities, but the limitation on how the tax revenues may be used is actually imposed by the state government. As in Question .710-11 in this section, the purpose restriction is imposed by a party outside of the reporting government, rather than by the reporting government itself.

[GASBIG 2015-1, Q7.24.22]

.710-13 Q—A state government passes enabling legislation that authorizes the raising of a gasoline tax and contains a legally enforceable restriction limiting the use of the revenues to street and highway projects. The legislation also requires the state to share a portion of the revenues with county governments. Should both the state and the counties disclose the revenues as net position restricted by enabling legislation?

A—Both the state and the counties would report the net position as restricted. However, *only the state government* would disclose the net position generated by the gasoline tax as restricted by enabling legislation. From the perspective of the counties, the net position is restricted by limitations imposed by the state, an outside party.

[GASBIG 2015-1, Q7.24.23]

.710-14 Q—A government passes enabling legislation that creates a tax and restricts its use to operating and maintaining parking facilities. The government also issues debt for constructing parking facilities, with a covenant that a certain portion of the tax revenue be set aside as a reserve. How should the government distinguish between resources restricted by the enabling legislation and the bond covenant?

A—The bond covenant places an additional, more restrictive limitation on the use of a portion of the tax revenues but for a purpose that is nonetheless consistent with the overall limitation imposed by the enabling legislation. The portion of net position represented by the reserve should be reported as restricted for debt service (or similar category of restriction) but not disclosed as net position restricted by enabling legislation as required by paragraph ~~.120419~~ .120419 of this section. The remainder of the resources from the tax, if any, should be reported as restricted for parking facilities (or similar category of restriction) and disclosed as net position restricted by enabling legislation.

[GASBIG 2015-1, Q7.24.24]

.710-15 Q—A government issues bonds for capital construction but is required by the bond indenture to establish a bond and interest reserve from the

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proceeds. The cash and investments in the bond and interest reserve are included in the calculation of restricted net position. Should the portion of the debt attributable to the establishment of the reserve be included in the calculation of the *net investment in capital assets* or *restricted* component of net position?

A—The restricted component. Because the resources initially deposited into the reserve account represent proceeds of debt that were not “attributable to the acquisition, construction, or improvement” of capital assets, that portion of the debt should be included in the calculation of restricted net position. The resources in the reserve constitute *unspent proceeds*. If there are accumulated earnings from investing the resources in the reserve account, they should be included in the calculation of either restricted net position or unrestricted net position, as appropriate. (See also Questions .708-10 and .708-11 in this section about treatment of unspent proceeds and Question .710-6 in this section about liabilities related to restricted assets.)

[GASBIG 2015-1, Q7.24.25]

.710-16 Q—Should unrestricted net position reported in an enterprise fund be reclassified as restricted net position of business-type activities in the government-wide statements because the scope of business-type activities is broader than the single purpose of an individual enterprise fund? For example, should unrestricted net position of a water utility fund be considered “restricted to water utility operations” when that fund is combined with other funds to comprise business-type activities in the government-wide statements?

A—No. Even though a statute, ordinance, or rate-payer agreement may limit the use of water fund revenues to water fund purposes, net position in the government-wide statements should be classified as they are in the enterprise fund financial statements. Because the business-type activities reporting unit in government-wide statements does not have a “purpose,” per se, the issue of whether resources in an individual enterprise fund can only be used for a narrower purpose should not be considered. (See also Question .710-4 in this section.)

[GASBIG 2015-1, Q7.24.28]

.711 Determining legal enforceability

.711-1 Q—A government, through the application of professional judgment, has always determined that it does not have legally enforceable restrictions on resource use imposed by enabling legislation. Should this government always conclude that limitations imposed by its own legislation are not legally enforceable and therefore do not constitute a restriction?

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A—Prior determinations of nonenforceability should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable. The pattern of facts underlying a government’s prior determinations of nonenforceability may be relevant to future determinations. However, paragraph .120 of this section cautions that such determinations should be based on the facts and circumstances surrounding *each individual restriction*.

[GASBIG 2015-1, Q7.24.15]

.712 Changes in circumstances related to enabling legislation

.712-1 Q—Generally, when permanent endowments are mentioned in this section, the discussion also includes term endowments. (See paragraphs ~~.142141, .191, .192,~~ and ~~.197194~~ of this section, for example.) However, paragraph .123 of this section states that when permanent endowments or permanent fund principal amounts are included, the restricted component of net position should be displayed in two additional components—expendable and nonexpendable. Does this display requirement also apply to *term* endowments?

A—No. The objective of the requirement in paragraph ~~.124123~~ is to identify net position that *cannot be spent*. Term endowments may “currently” be nonexpendable, but at some point in the future (when the term expires) they will become expendable. Thus, the requirement in paragraph ~~.124123~~ applies only when the unavailability of net position is *permanent*.

[GASBIG 2015-1, Q7.24.6, as amended by GASBS XX, ¶29 and ¶30]

.712-2 Q—A state government imposes a new (or incremental) tax through legislation that includes a legally enforceable restriction on the use of the resulting tax revenues. Five years later, the state legislature passes a new, equally enforceable law that again authorizes the tax but changes the purpose for which those tax revenues can be used. Are the components of net position generated by the tax under the new law restricted?

A—Yes, as long as the legislation establishing the new restriction qualifies as enabling legislation, as defined by paragraph ~~.120119~~ of this section. The components of net position resulting from taxes raised under the new law are restricted for the new purpose from that period forward. Professional judgment should be used to determine if the components of net position resulting from taxes raised under the initial enabling legislation should remain restricted for the original purpose, or should henceforth be reported as restricted to the new purpose specified in the new legislation, or unrestricted.

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Paragraph 327 of the Basis for Conclusions of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, emphasizes the *substance* of the legislation as the determining factor when considering whether components of net position are restricted. If resources are indeed restricted by virtue of a legally enforceable and binding action of the legislature, the substance is the same, regardless of whether the limitations were imposed in the initial enabling legislation or in subsequently enacted enabling legislation that replaces the original legislation. The substance is that resources are being held pursuant to legally enforceable, binding restrictions. Paragraph ~~.120119~~ would consider those resources restricted.

In this illustration, the new enabling legislation does not restrict the use of previously unrestricted resources, nor does it simply “ earmark ” the original revenue source. In those instances, the accumulated resources would be *unrestricted* rather than *restricted*. (See also Question .710-8 in this section.) Rather, like the original legislation, the new legislation meets the criteria for being considered enabling legislation, including providing the authority to raise the revenue that is restricted. In this way, as noted in paragraph 24 of the Basis for Conclusions of Statement No. 46, *Net Assets Restricted by Enabling Legislation*, the new legislation replaces the original in its entirety, and the original enabling legislation is no longer in effect.

[GASBIG 2015-1, Q7.24.12]

.712-3 Q—A government passes enabling legislation that creates a new (or incremental) tax and imposes a legally enforceable restriction on the use of the tax revenues. Subsequently, the government uses some of these new (or incremental) tax revenues for a purpose not specified by the enabling legislation. How should the net position generated by the tax be reported?

A—Paragraph ~~.123122~~ of this section states that when resources restricted by enabling legislation are used for a purpose other than those set forth by the legislation, the government should reevaluate the legal enforceability of the restrictions. If it determines, in its professional judgment, that the restrictions are no longer legally enforceable, then from that period forward the accumulated resources and the future resources generated by the tax should be reported as unrestricted.

If the government determines that the restriction continues to be legally enforceable, the restricted net position should not reflect any reduction related to the use of the restricted resources for purposes not specified by the enabling legislation. The entire amount of restricted resources used for nonspecified purposes should be deducted from unrestricted net position.

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The restricted component of net position should be determined as specified in Question .710-7 in this section, beginning with the year-end amount of assets restricted to the purpose specified by the enabling legislation. The amount of restricted resources used for purposes not specified by the enabling legislation should be added back to the year-end restricted assets, and the sum should be reduced by reported claims against those assets. This will ensure that the use of restricted resources for purposes not specified by the enabling legislation will be reflected in the unrestricted component of net position rather than the restricted component of net position.

If *all* of the restricted resources were used for purposes not specified by the enabling legislation (in other words, no assets restricted to the purposes specified by the enabling legislation remain at year-end) and the restriction continues to be legally enforceable, the year-end amount of assets restricted to the purpose specified by the enabling legislation is zero, but the restricted component of net position still should be determined as specified in Question .710-7. Beginning with a zero balance of restricted assets, the amount of restricted resources used for purposes not specified is added back (in this instance, all of the restricted resources), and the sum is reduced by reported claims against those assets.

[GASBIG 2015-1, Q7.24.17]

.712-4 Q—A government passes enabling legislation that levies an incremental sales tax and restricts the revenues to funding elementary and secondary education. Subsequently, the government uses some of the revenues for another purpose. The government reevaluates the legal enforceability of the restriction, as required by paragraph ~~.1232122~~ of this section. Based on its professional judgment, the government determines that the restriction is not legally enforceable and reports the accumulated resources and all future resources generated by the tax as unrestricted from that period forward. Several years later, however, the government is sued, and the court orders the government to use the resources only for the purpose specified by the legislation. How should the net position be reported?

A—Unless the court order specifies which resources are restricted, the components of net position generated by the sales tax should be reported as restricted—and disclosed in the notes to the financial statements as restricted by enabling legislation—beginning in the period during which the court judgment was rendered.

Paragraph ~~.121120~~ of this section cautions that legal enforceability cannot ultimately be proven unless tested through the judicial process. Until such time, professional judgment relies on available evidence. At the time the government used the tax revenues for nonspecified purposes, there may have been

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no reason to believe that an outside party could compel the government to honor the restriction imposed by the enabling legislation; in fact, there may have been no prior instances in which a court compelled the government or similar governments.

[GASBIG 2015-1, Q7.24.20]

.712-5 Q—A donor makes a donation of \$1 million to a governmental entity with the condition that the government match the donation to create a permanent fund in which the combined \$2 million would serve as the nonexpendable corpus. Provided that revenue recognition criteria pertaining to the donation have been met, would both the donation and the government's \$1 million match be reported as restricted net position?

A—Yes. The government voluntarily matches the \$1 million donation in order to obtain the donation. Ordinarily, a voluntary limitation would not result in restricted net position. However, once the government obtains the donation, its own \$1 million match becomes bound by the restriction imposed by the donor. Were the government to spend any portion of its matching amount, the terms of the donation would be violated and the government would have to return the money it received from the donor. Therefore, the entire \$2 million corpus of the permanent fund would be reported as restricted net position.

[GASBIG 2015-1, Q7.24.26]

.712-6 Q—A state university's donor agreement addresses the disposition of earnings on permanent endowments. The agreement allows the university to either spend the earnings or reinvest a portion, and if reinvested, the reinvested amount becomes part of the permanent endowment, subject to the same restrictions as the original corpus. How should net position associated with the reinvested earnings be classified in the university's statement of net position?

A—The net position associated with the reinvested earnings should be included in the calculation of nonexpendable restricted net position. The donor has given the university's administration the power to reinvest a portion of the earnings and after that event has occurred, the dollars so reinvested become restricted and the decision to reinvest cannot be reversed.

[GASBIG 2015-1, Q7.24.27]

.712-7 Q—A local benefactor has made a \$5 million donation to the community college. According to the terms of the bequest, the principal of the gift is required to remain intact and the earnings are required to be used for

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improvements to the college's fine arts center. At the end of the current fiscal year, the fair value of the endowment has dropped to \$4.85 million. Because the original amount is nonexpendable, should the college report restricted nonexpendable net position of \$5 million or \$4.85 million? If the market recovers in the following year and the endowment value increases to \$5.15 million, what amounts are reported in the restricted nonexpendable component of net position and restricted expendable component of net position?

A—In the current year, restricted nonexpendable net position should be reported at \$4.85 million. Restricted net position should represent the reported amount of restricted assets reduced by liabilities related to those assets. (See Questions .710-6 and .710-9 in this section and nonauthoritative paragraph .903 of Section 1800.) In this example, the restricted assets reported in the statement of net position are \$4.85 million as a result of the investment loss.

[GASBIG 2015-1, Q7.24.29]

.712-8 Q—How should an institution report a permanent endowment that was established with an original gift of \$1 million, with the earnings restricted for a specific purpose, that has a fair value of \$1.2 million at the end of the fiscal year? If the market subsequently declines in fair value to \$950,000, what amount should be reported in the restricted nonexpendable component of net position and how is the \$250,000 market decline recorded?

A—The \$1 million will be reported as a restricted nonexpendable component of net position and \$200,000 as restricted expendable net position. If the \$1.2 million gift subsequently declines in fair value to \$950,000, the \$250,000 decline in value is recorded as a \$200,000 reduction in the restricted expendable component of net position and a \$50,000 reduction in the restricted nonexpendable component of net position (consistent with the guidance in Question .712-7 in this section) for a final value of \$950,000 in the restricted nonexpendable component of net position.

[GASBIG 2015-1, Q7.24.30]

.713 Unrestricted Component of Net Position

.713-1 Q—Should unrestricted net position reported in an enterprise fund be reclassified as restricted net position of business-type activities in the government-wide statements because the scope of business-type activities is broader than the single purpose of an individual enterprise fund? For example, should unrestricted net position of a water utility fund be considered “restricted to

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water utility operations” when that fund is combined with other funds to comprise business-type activities in the government-wide statements?

A—No. Even though a statute, ordinance, or rate-payer agreement may limit the use of water fund revenues to water fund purposes, net position in the government-wide statements should be classified as they are in the enterprise fund financial statements. Because the business-type activities reporting unit in government-wide statements does not have a “purpose,” per se, the issue of whether resources in an individual enterprise fund can only be used for a narrower purpose should not be considered. (See also Question .710-4 in this section.)

[GASBIG 2015-1, Q7.24.28]

.713-2 Q—Are there specific criteria that should be considered in determining whether net position is unrestricted?

A—No. Unrestricted net position is the “residual” component of net position. It consists of net position that does not meet the definition of *restricted or net investment in capital assets*.

[GASBIG 2015-1, Q7.25.2]

.714 Required Financial Statements—Statement of Activities

.714-1 Q—What is the minimum level of detail that is required to be reported as functions or programs in the statement of activities? Does this level need to be as detailed as the fund financial statements?

A—The statement of activities has a “program” focus, and governments are encouraged to report their activities at the program level, whenever practical. Paragraph ~~.128-127~~ of this section establishes the *minimum* levels of reporting. Activities accounted for in governmental funds should be presented in the statement of activities at least at the level of detail required in the governmental fund statement of short-term financial resource flows ~~revenues, expenditures, and changes in fund balances~~—at a minimum by *function*, as discussed in paragraph .133 of Section 1800. The statement of activities requirement is tied to the governmental fund reporting *minimum requirements*, rather than what is actually displayed in the fund financial statements; thus, governments can provide additional details for governmental fund financial statements without also having to do so for the statement of activities. Activities accounted for in enterprise funds should be presented at least by *different identifiable activities*

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in the statement of activities. (See Questions .714-3 and .714-4 in this section, and Question .701-3 in Section 2500.)

[GASBIG 2015-1, Q7.26.1, as amended by GASBS XX, ¶111]

.714-2 Q—What are the criteria for determining which activities accounted for in enterprise funds are sufficiently *different* to require separate reporting in the statement of activities?

A—Paragraph ~~.128127~~ of this section does not provide specific criteria that should be applied in determining whether one enterprise fund activity is different from another—some professional judgment may be necessary. Generally, the difference between activities is in the goods, services, or programs provided. Usually, the distinction is clear and the decision is straightforward— for example, unemployment compensation is different from a housing loan program, and each should be reported separately. Sometimes, however, *difference* is more subtle and judgment may need to be applied. For example, is an intercollegiate athletic program different from higher education, or is it an integral component of it? Professional judgment should be guided by the needs of the users of the financial statements. Preparers should present the level of detail that provides the most meaningful information to meet user needs.

[GASBIG 2015-1, Q7.26.3]

.714-3 Q—A city’s water department manages four separate water districts. The city uses separate enterprise funds to account for the activities of each of the four districts. Is the city required to report each district as a separate function or program in the statement of activities?

A—No. The city may report them separately, but is not required to do so. Paragraph ~~.128127~~ of this section establishes the minimum level of detail for activities accounted for in enterprise funds as *different identifiable activities*. In this case, even though there is a separate and identifiable *accounting* for each district, the *activity* in the districts is the same— production, treatment, and distribution of water. The city can combine the four districts as, for example, “Water Utilities.”

[GASBIG 2015-1, Q7.26.4]

.714-4 Q—A city uses a single enterprise fund to account for its water and electric utilities. Separate accounts are used for capital assets, liabilities, revenues, and expenses of the two utility operations. Can the city report a single “utilities” function in the statement of activities?

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A—No. Provision of water and generation and distribution of electricity are *different* activities. The separate accounting satisfies the *identifiable* criterion. The city should report, for example, “Water Utility” and “Electric Utility” as separate functions or programs in the statement of activities.

[GASBIG 2015-1, Q7.26.5]

.714-5 Q—Component units that are engaged only in business-type activities are not required to present a statement of activities in their separately issued financial statements. Consequently, those component units that follow the guidance in paragraph .113 of Section Sp20 do not distinguish between program and general revenues, even though that information will be displayed in the reporting entity’s statement of activities. How should the operations of those component units be included in the reporting entity’s statement of activities?

A—Component units that are not program-oriented, and would likely not report their operations in a net program cost format, can be presented in the reporting entity’s statement of activities as if the component unit itself were a single function/program. As a result, all revenues, except those that should be reported as general revenues (taxes, for example), derive from the program and may be reported as program revenues. The specific program revenue classifications can generally be inferred from the manner in which the revenues are reported in the component unit’s operating statement—for example, capital contributions would be reported in the capital grants and contributions column, operating and nonoperating grants would be included in the operating grants and contributions column, and so forth.

[GASBIG 2015-1, Q7.26.6]

.714-6 Q—A school district receives significant amounts of unrestricted grants and local property taxes. Can the district display more than one category of general revenue and report subtotals for the change in net position after each category?

A—Yes. Paragraph ~~.127126~~ of this section requires only that the change in net position for the period be displayed. Although multiple categories and subtotals are not illustrated in paragraph ~~.143142~~ of this section, they can be presented in addition to the required “change in net position for the period.”

[GASBIG 2015-1, Q7.40.1]

.714-7 Q—Paragraph ~~.193191~~ of this section requires the statement of revenues, expenses, and changes in fund net position of proprietary funds to distinguish

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between operating and nonoperating revenues and expenses. How should the operating statement information of enterprise funds be reported in the statement of activities?

A—The operating/nonoperating distinction is significant only in the fund financial statements and is not required to be made in the statement of activities. Direct expenses reported in the statement of activities include both operating and nonoperating expenses. Some nonoperating revenues satisfy the criteria to be reported as program revenues, whereas some may be reported as general revenues. Capital contributions should be reported as program revenues as discussed in paragraph .139~~138~~ of this section. Transfers and unusual or infrequent~~special and extraordinary~~ items should be reported in the statement of activities in accordance with the requirements of paragraph .142~~141~~ of this section.

[GASBIG 2015-1, Q7.45.1, as amended by GASBS XX, ¶19 and ¶29]

.714-8 Q—Can a government that wants to provide more detail (more programs or more details of general revenues, for example) than fits on one page divide and report the statement of activities on two pages?

A—Yes. Exhibit 3 in nonauthoritative paragraph .905 of this section presents a two-page approach for the municipal government that is illustrated in nonauthoritative paragraph .902 of this section. In this case, the government presents its governmental functions or programs in more detail than is displayed in the fund financial statements. The expanded net program cost information is presented on the first page, and general revenues and changes in net position information is displayed on the second page. The state government illustrated in Exhibit 33 in nonauthoritative paragraph .904 of this section also uses a two-page approach to provide additional details of its general revenues.

[GASBIG 2015-1, Q7.46.1]

.714-9 Q—A government provides services within a few functional categories, and all are classified as governmental activities. Is there a reporting alternative that would simplify the presentation of the statement of activities for this type of government?

A—Yes. Exhibit 4 in nonauthoritative paragraph .905 of this section illustrates an approach that would be appropriate for governments that have only a few functions within a single type of activity. This alternative display method presents the functional categories (programs) in columns rather than rows, with the total column on the left rather than the right side of the statement. This display technique also allows all of the descriptions to follow consecutively

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in a single column. The advantages of using this approach quickly erode, however, as the number of columns increases.

[GASBIG 2015-1, Q7.46.2]

.715 Expenses

.715-1 Q—If outflows of short-term financial resources for city-wide vehicle maintenance ~~expenditures~~ are accounted for in the general fund, do the expenses associated with specific functions or programs (police, public works, garbage collection, for example) need to be reported as direct expenses of the various functions in the statement of activities?

A—Yes. If the maintenance expenses can be specifically identified with separately reported functions or programs, paragraph .130129 of this section requires those expenses to be included in the direct expenses of the functions or programs. Vehicle maintenance is an internal operation or cost center, rather than a separate function or program. The expenses that are not specifically identified with separately reported functions or programs (including depreciation of the maintenance facilities) would be reported with “general

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government” or a similar indirect cost center. If the city chooses to allocate those indirect expenses to its programs, it should do so by using the separate indirect expense column in the statement of activities.

[GASBIG 2015-1, Q7.28.1, as amended by GASBS XX, ¶23]

.715-2 Q—A city currently charges all nonenterprise fund employee benefit costs to a “general administration” account in the general fund. Can those employee benefit expenses for employees whose salaries and wages are charged to functions such as Public Safety, Public Works, and Sanitation be reported as “general government” in the statement of activities, or should they be reclassified as direct expenses of the various functions or programs?

A—Employee benefit costs are specifically associated with the separately reported functions mentioned and should be included in the direct expenses of the various functions or programs. These expenses are as “direct” as the salaries that they are based on. As a practical approach, the city could use a standard rate to add the employee benefits to the various operating functions and reclassify them from the general government function.

[GASBIG 2015-1, Q7.28.2]

.715-3 Q—If the minimum requirement, as set forth in paragraph .130129 of this section, is to report direct expenses by function, how should expenses that are, by nature, *not* direct be reported?

A—The “direct” expenses of some “overhead” functions—general government, support services, administration, and interest on indebtedness, for example—are, in essence, the “indirect” expenses that could be allocated to the other functions. As explained in paragraph .131130 of this section, governments are not required to allocate those indirect expenses to other functions, but may report them as direct expenses of an overhead-type function.

[GASBIG 2015-1, Q7.28.3]

.715-4 Q—Is indirect expense allocation limited to governmental activities, or can it also be extended to business-type activities?

A—Indirect expenses can be allocated to any of the primary government’s functions or programs. Although there are no standards, there should be a reasonable basis for expense allocations to specific functions. In the illustration provided in Exhibit 2 in nonauthoritative paragraph .905 of this section, for example, there likely would be no basis for allocating interest on

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long-term debt to the business-type activities. On the other hand, the indirect expenses in the “general government” functional category may be allocable to both governmental activities and business-type activities. However, making allocations that cross the governmental/business-type activities boundary would inappropriately affect the net position and changes in net position of both types of activities. As a result, the indirect expense allocation also would necessitate reporting a transfer from governmental activities to business-type activities in the statement of activities to offset the effect on net position. A transfer, rather than an internal balance adjustment, should be reported because the allocation is for government-wide reporting purposes only. Unlike internal charges from an internal service fund, indirect expense allocations do not represent changes in fund balances and fund net position that result from the movement of resources within the funds. There is no expectation of internal reimbursements for indirect-expense allocations. (See Question .725-18 in this section about internal service fund look-back adjustments that affect business-type activities.)

[GASBIG 2015-1, Q7.28.4]

.715-5 Q—A local government has negotiated indirect cost rates with various departments of the federal government. In establishing the rates, the government considers certain personnel, administrative, and other costs that are not specific budget line items in the grant and contract agreements. The rates are used as the basis for a charge from the general fund to the various funds that account for the grant programs. Thus, significant indirect charges are included in the outflows of short-term financial resources expenditures of several governmental funds, and certain outflows of short-term financial resources expenditures in the general fund are reduced by the reimbursements. Should the “Expenses” column on the government-wide statement of activities for the various functions include the amounts charged to the funds as indirect cost?

A—No. If indirect costs have been allocated to the funds and the government also wants to include them in the functions or programs in the statement of activities, the indirect allocations should be reported in a separate column. The reimbursements in the general fund should be reported as a negative amount in the separate column (in the “general government” function, for example) so that the total of the indirect expense column is zero. Paragraphs .1301-29 and .1311-30 of this section establish the requirements for reporting direct and indirect expenses. (See also Question .725-1 in this section.)

[GASBIG 2015-1, Q7.28.5, as amended by GASBS XX, ¶23]

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.715-6 Q—In determining whether to charge depreciation as a direct expense of a government’s functions, what is the difference between a “shared” capital asset and one that “essentially serves all functions”?

A—The difference is generally in the number of functions that share the asset. As the number of functions increases, the ease, practicality, and usefulness of assigning depreciation to those functions decreases. Therefore, depreciation of assets that serve many, or “essentially all,” functions is not required to be included in the direct expenses of those many functions. A shared capital asset is generally used by only a few functions, and its use can be specifically identified to those functions. Usage of a shared asset is generally such that an objective measurement can be made for the assignment of costs—based on square footage for a building or mileage for a vehicle, for example.

[GASBIG 2015-1, Q7.29.1]

.715-7 Q—When initially adopting GAAP financial reporting, some governments recorded a group of capital assets collectively, such as all general capital assets acquired prior to July 1, 1980. Can the depreciation on these assets be reported as a separate line in the statement of activities?

A—No. Although this group of general capital assets, collectively, serves several functions, the individual assets within the group serve different functions. Reporting all costs of a function or program, including costs of capital assets, enhances the usefulness of the statement of activities. The depreciation on general capital assets grouped in this manner should be allocated to the appropriate functions.

[GASBIG 2015-1, Q7.29.3]

.715-8 Q—Paragraph ~~.133132~~ of this section states that if a government uses a separate line in the statement of activities to report unallocated depreciation expense, it should clearly indicate on the face of the statement that this line item excludes direct depreciation expenses of the various programs. What are the alternatives for *clearly indicating* this notice on the face of the statement?

A—There are two ways that the information can be presented on the face of the statement. The line item description itself can include the notice “Depreciation expense not included in other functions” or “Unallocated depreciation,” for example. The other method is to cross-reference the line item description to a notation on the same page that provides the notice. For example, the expense line could simply be titled “Depreciation,*” with an asterisk referencing a description at the bottom of the page that states, “This

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amount does not include the depreciation that is included in the direct expenses of the various programs.” In either case, it would be useful to refer the reader to the note disclosure required by paragraph .118 of Section 2300 that provides the details of the amounts charged to each of the functions.

[GASBIG 2015-1, Q7.29.4]

.715-9 Q—A government obtains a bank loan for noncapital purposes and uses the proceeds for a particular program. Should the interest on the loan be included in the direct expenses of the program?

A—No. Even though the interest can be tied directly to a specific program, it should not be included in the direct expenses of that program, but rather should be included with other interest expense in the separate “Interest” line item. (See Question .715-12 in this section.) As explained in paragraph 364 of the Basis for Conclusions of Statement 34, borrowing is a financing decision that involves government-wide considerations. If the government borrows for program A and pays cash for similar purposes in program B, that is a management decision about *financing* but is not an indication that one program’s costs are greater than another’s costs. (See Question .715-11 in this section for an example of when it is appropriate to include interest expense in direct expenses.)

[GASBIG 2015-1, Q7.30.1]

.715-10 Q—Is the interest expense associated with a lease a direct expense of the function that uses the capital asset subject to the lease?

A—No. Interest on leases or interest expense resulting from vendor financing arrangements should not be reported as direct expenses of specific programs. (See Question .715-9 in this section.)

[GASBIG 2015-1, Q7.30.2, as amended by GASBS 87, ¶20]

.715-11 Q—A state government has a program to make reduced-rate loans to school districts in the state. The initial funding for the program was provided by a large bond issue. Should the interest on the bonds be included in the direct expenses of the loan program?

A—Yes. The loan program is an example of the limited instances discussed in paragraph ~~.135-142~~ of this section “when borrowing is essential to the creation or continuing existence of a program and it would be misleading to exclude the interest from direct expenses of that program.” In this example, the loan program would not exist and could not continue without the underlying bonded debt. In addition, the debt would not have been issued

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for any other program, and no other resources could have been substituted for the bond proceeds. To ignore the cost of borrowing when the program itself is completely dependent on the borrowing would be to inappropriately imply that the program was without cost.

[GASBIG 2015-1, Q7.30.3]

.715-12 Q—Paragraph ~~.135142~~ of this section states that most interest on general long-term liabilities does not qualify as a direct expense and should be reported in the statement of activities as a separate line that clearly indicates that it excludes direct interest expenses, if any, reported in other functions. If no direct interest expense is excluded, is the caption “Interest on long-term debt” sufficient to indicate that there is no direct interest expense?

A—Yes. The notice is required only if there is direct interest that has been excluded. In addition, if any direct interest expense has been excluded, the amount should be disclosed in the notes or presented on the face of the statement, as required by paragraph ~~.135142~~.

[GASBIG 2015-1, Q7.30.4]

.715-13 Q—Is interest expense of business-type activities and discretely presented component units required to be reported separately in the statement of activities?

A—No. The requirement in paragraph ~~.135142~~ of this section relates only to interest on *general long-term liabilities* of the primary government. Interest expense on enterprise fund debt should be included in the direct expenses of the appropriate functions or programs reported in the statement of activities. Similarly, interest expense of discretely presented component units is not required to be reported separately in the reporting entity’s statement of activities.

[GASBIG 2015-1, Q7.30.5]

.715-14 Q—A state constitution prohibits the issuance of debt. Therefore, general obligation debt is issued only by constitutional amendments approved by the voters. Such amendments are highly specific as to which capital projects will be built, so identification of the program is obvious. Because management has no discretion in allocating the financial resources to other programs, is it misleading to exclude that interest from direct program expenses of the governmental functions where those capital assets will be used?

A—No. Interest expense generally should not be included in the direct expenses of a function or program within governmental activities, even in this

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instance when the interest arises from borrowing to finance specific capital assets. Paragraph ~~.135142~~ of this section makes it clear that the direct expense situation will be rare. If the state is concerned that the total cost of a program should include interest expense directly attributable to capital assets used in that program, the indirect expense column should be used to allocate the interest expense. (See Question .715-13 in this section about reporting interest on enterprise fund and component unit debt.)

[GASBIG 2015-1, Q7.30.6]

.715-15 Q—A state’s Division of Human Resources (DHR) allocates the entire cost of its operations to other state agencies based upon agency “full-time equivalent” personnel count. DHR receives all of its “funding” through this allocation mechanism. Should this internal activity be treated as reimbursements, or do the charges represent program revenue of DHR? Are the charges to the various state agencies direct or indirect expenses?

A—Because of the standard allocation formula used by DHR, it is unlikely that the expenses are “directly attributable” to the various agencies. Thus, they should be treated as indirect expenses, and the allocations should either be reversed completely for the statement of activities or be reversed and displayed in the separate column. The charges appear to be designed to “spread” costs and therefore constitute reimbursements rather than program revenues.

[GASBIG 2015-1, Q7.47.3]

.715-16 Q—A central agency buys goods and “charges” other state agencies, through the general fund, for their respective shares (at a minimal markup to handle administrative expenses). Would this be considered a *reimbursement* situation?

A—The “reselling” of goods by a central agency to other state agencies represents a typical reimbursement situation. The definition in paragraph .102b(2) of Section 1800 states that reimbursements are “repayments from the funds responsible for particular outflows of short-term financial resources expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.” Paragraph ~~.132131~~ of this section states that governments are not required to remove the “markup.”

[GASBIG 2015-1, Q7.47.4, as amended by GASBS XX, ¶123]

.715-17 Q—A “lead” state agency obtains a federal grant and passes a portion through to another state agency. For the state’s financial statements, would the lead

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agency consider the federal ~~payment reimbursement~~ (of the subrecipient agency's ~~costs expenditures~~) that it passes through a reimbursement, or revenue and expense per paragraph .127 of Section N50?

A—Because the portion provided to the other state agency is an internal transaction, there is no “pass-through” to invoke the requirements of paragraph .127 of Section N50; therefore, the state function that includes the lead agency would not include inflows of short-term financial resources/revenue or outflows of short-term financial resources/expense from the grant. The federal reimbursement should be reported as program revenue of the function that includes the agency (the subrecipient) that reports the reimbursed expenses in the statement of activities. For parallel accounting in the governmental funds, the “passing through” from one agency to another should be accounted for consistent with a reimbursement. That is, the lead agency would reduce its inflows of short-term financial resources/revenue by the amount transferred to the subrecipient agency, rather than report the amount as inflows of short-term financial resources/revenue and a transfer.

[GASBIG 2015-1, Q7.47.5, as amended by GASBS XX, ¶22 and ¶23]

.715-18 Q—What is the difference between “overhead expenses” discussed in paragraph ~~.154153~~ of this section (which should be eliminated), and “administrative overhead charges” referred to in paragraph ~~.132131~~ of this section (which need not be eliminated)?

A—There really is no difference in the two terms, but there is a difference in the objectives of the two paragraphs. The intent in paragraph ~~.154153~~ is to eliminate the “doubling up” of internal allocations (that is, reducing the expenses of the allocating function by the amount allocated [the internal “revenue”] to others) so that only one function reports the expense. The concept is similar to accounting for interfund reimbursements. The provision in paragraph ~~.132131~~ is a practical consideration that relieves governments of the burden of removing and reclassifying any “indirect” elements of internal charges from the *direct* expenses of a function. (See the examples in Questions .725-7 and .725-10 in this section.)

[GASBIG 2015-1, Q7.47.15]

.716 Revenues

See also Question .751-5 in this section regarding reporting capital grants and contributions by a special-purpose government reporting as a BTA.

.716-1 Q—Paragraph ~~.136135~~ of this section describes “type a” revenue as being provided by “those who purchase, use, or directly benefit from the goods or services of [a] program.” It states that this type of revenue is always program revenue. What are common examples of type a revenues?

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A—Examples of revenue from those who *purchase* goods or services include payments from residents for city-operated garbage collection and charges to private construction companies for traffic control around construction sites. Revenues from those who *use* goods or services include golf course fees and swimming pool fees. Fishing and hunting licenses and building permits are examples of revenues from those who *directly benefit* by paying for the privilege or authorization to accomplish certain tasks or engage in certain regulated activities.

[GASBIG 2015-1, Q7.32.1]

.716-2 Q—How should a specific revenue be reported if the source of that revenue fits the description of more than one source of financing in paragraph ~~.136~~~~135~~ of this section?

A—The financial reporting requirements for classifying revenues in the statement of activities are provided in paragraphs ~~.137–.142~~~~136–.141~~ of this section. The descriptions in those paragraphs focus on the *revenues* themselves, rather than the *sources* of the revenues, and are mutually exclusive. For example, a revenue that meets the criteria to be reported as a charge for services in paragraph ~~.138~~~~137~~ does not also satisfy the criteria for grants and contributions in paragraph ~~.139~~~~138~~. There is no direct one-to-one relationship between the sources of revenue discussed in paragraph ~~.136~~~~135~~ and the reporting requirements in paragraphs ~~.137–.142~~~~136–.141~~. For example, the reporting requirement for revenues from those who purchase, use, or directly benefit from the goods or services (regardless of whether the purchaser is a citizen, an outside party, or the government itself) is set forth in paragraph ~~.138~~~~137~~, *charges for services*. Reporting requirements for revenues from parties outside the reporting government’s citizenry are established in paragraph ~~.139~~~~138~~, *program-specific grants and contributions*, and in paragraph ~~.141~~~~140~~ (for grants and contributions that are not restricted). General revenues from the government’s taxpayers are discussed in paragraph ~~.141~~~~140~~.

[GASBIG 2015-1, Q7.32.2]

.716-3 Q—A city charges its departments or programs for building permits related to the construction of and improvements to its own buildings. Should these “internal” building permits be considered revenue from “those who purchase, use, or directly benefit from the goods or services of [a] program,” as identified in paragraph ~~136a~~~~135a~~ of this section?

A—Yes. These building permits are charges for services and thus would be reported as program revenue. As discussed in Question .716-2 in this section, revenue should not be regarded as general revenue if it meets the criteria

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for program revenue in paragraphs ~~.138-.140~~~~137-139~~ of this section. (See Question .725-9 in this section about eliminations.)

[GASBIG 2015-1, Q7.33.1]

.716-4 Q—A school district is awarded an operating grant from the state department of education. The grant agreement states that the department will reimburse the school district for all eligible expenses of three specific programs. The grant award, however, does not specifically identify the *amounts* restricted to each program, as required by paragraph ~~.139~~~~138~~ of this section, because they will not be known until the school district submits its after-the-fact request for funding. Can the school district report the grant as program revenues for the three programs, or should it be reported as general revenue?

A—The school district should report the grant as program revenues of the three programs based on the amounts of reimbursable expenses of each program. In substance, the state has said that it would pay the expenses of the three programs (whatever the actual expenses are); thus, it *has* agreed to finance specific programs in specific amounts (even though unknown when the grant is made). Furthermore, because the payments to the school district are *reimbursements* of specific expenses, the resources are, in essence, “restricted” for use in paying those expenses.

[GASBIG 2015-1, Q7.34.1]

.716-5 Q—A local government is awarded a categorical grant that finances a large number of its programs. The grant award lists the programs covered but does not restrict any specific amounts to specific programs. Should the government allocate the grant among the covered programs and report it as program revenue?

A—No. Paragraph ~~.139~~~~138~~ of this section provides that the grant award is required to specify the programs to be funded and the “amounts restricted to each program.” In this case, even though the funded programs are specifically identified, the grant should be reported as general revenue because specific amounts are not restricted to each program; thus, the recipient government has the ability to allocate the grant revenue among the programs at its discretion. (See also Question .716-6 in this section.)

[GASBIG 2015-1, Q7.34.2]

.716-6 Q—A school district reports its operations by *functional categories* in its statement of activities. The district frequently receives grants from the state and federal governments that meet the definition of program revenue

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paragraph .139 of this section. However, many of those grants are restricted to *programs* rather than functions. In other words, the grants specify amounts for specific programs that may be spread among multiple functions. For example, funding restricted to special education covers expenses reported in instruction, administrative support, transportation, and other categories. Is the special education grant *general* revenue because it is not attributed to a specific functional category?

A—No. If the grant meets the definition of program revenue in paragraph ~~.139~~^{.138}, it should be reported accordingly. Revenues that meet that definition should be reported as program revenues regardless of the compatibility with the detail presented in the statement of activities. Two school districts that receive identically structured grants should classify the revenues in the same manner even if one district uses “functions” and the other uses “programs” in their statements of activities. The content and format of the financial statement does not dictate which revenues are program revenues and which are general revenues. In this illustration, the grant is detailed by program and the statement of activities is detailed by function. Thus, one program may be allocated over multiple functions. The solution is to use a reasonable allocation method to assign the program revenues to the appropriate functions—for instance, relative percentages of expenses. Therefore, a grant restricted to special education may be allocated to “Instruction,” “Administration,” and “Transportation,” even if the grant application or award does not provide for that level of categorization.

[GASBIG 2015-1, Q7.34.3]

.716-7 Q—Are pass-through grants, on-behalf payments, and food stamp revenues reported in accordance with the requirements of Section N50, “Nonexchange Transactions,” and revenue recognized as a result of a special funding situation in accordance with the requirements of Section P20, Section P21, Section P22, or Section P24, as applicable, considered general or program revenues?

A—Revenues recognized pursuant to the requirements of Section N50 and those recognized pursuant to the special funding situation requirements of Section P20, Section P21, Section P22, or Section P24, as applicable, are examples of “type b revenues” in paragraph ~~.136~~^{.135} of this section and should be reported as program revenues because they are specifically attributable to a program and reduce the net cost of that program to the reporting government. (See Question .718-1 in Section N50 regarding on-behalf payments for employee benefits.)

[GASBIG 2015-1, Q7.34.4, as amended by GASBIG 2016-1, Q5.15]

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.716-8 Q—State law allocates a percentage of the state’s sales tax revenues to local governments. A portion of the local share is restricted to education. At the local level, is the amount of sales tax allocated to education program revenue or general revenue?

A—From the local government perspective, the allocation is a shared revenue (a voluntary nonexchange transaction) rather than a tax and should be reported as program revenue, in accordance with paragraph ~~.1391-38~~ of this section. If the reporting government is a school district that reports a typical set of functional categories, the sales tax allocation should be reported as general revenue because it is restricted only to “education.” (See Questions .710-4 and .718-1 in this section.)

[GASBIG 2015-1, Q7.34.5]

.716-9 Q—In the statement of activities, is contributed infrastructure a general or a program revenue?

A—Generally, contributed capital assets would be reported as program revenues. Conceptually, the contribution of a specific capital asset should be reported in the same way as a contribution of financial resources restricted to purchase or construct that asset would be reported. In this instance, even though the developer contributing the infrastructure does not formally “restrict” the contributed assets to the transportation function, the government has no discretion in the use or application of the asset—it is restricted by its nature. However, there may be occasions when the contributed asset is such that its intended use is not obvious or limited and the government may have no immediate plans for how it will be used. In those circumstances, it would be more appropriate to report the donated assets as general revenue.

[GASBIG 2015-1, Q7.34.7]

.716-10 Q—A municipality establishes a tax increment district and sells capital improvement bonds to provide resources for redevelopment within the district. Incremental property taxes are pledged as the source of repayment for the bonds. If the incremental taxes are not adequate to meet the debt service requirements, the project’s developer is obligated (through a contract with the municipality) to cover the shortfall. Should payments from the developer be reported as program or general revenues?

A—Payments from the developer should be reported as program revenue—capital grants and contributions. Even though payments are made in place of property taxes, which are reported as general revenues, the payments are not taxes but instead meet the definition of program-specific grants and

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contributions in paragraph ~~.139138~~ of this section. The payments are specifically attributable to a program and reduce the net expense of that program to the reporting government. (See also Question .718-5 in this section about developer contributions that should be reported as general revenues.)

[GASBIG 2015-1, Q7.34.8]

.716-11 Q—Some functions, a library for example, raise revenues by levying a special tax. Can that revenue be reported in the charges-for-services category of program revenues?

A—No. The library does not “generate” the revenue. Paragraph ~~.141140~~ of this section clearly states that all taxes, even if levied for a specific purpose, are general revenues. In this example, the tax is paid by *all* taxpayers, regardless of whether they use the library facilities; thus, it is not comparable to a charge for services. (See also Question .716-12 in this section.)

[GASBIG 2015-1, Q7.35.6]

.716-12 Q—Are taxes on sales of alcohol by a state alcoholic beverage control board (ABC board) considered program revenue because they are *generated* by the ABC board’s activities?

A—No. The state’s liquor tax is no different from other state *sales* taxes and should be reported as general revenue in accordance with paragraph ~~.141140~~ of this section. However, the revenue from the sale of alcoholic beverages is program revenue.

[GASBIG 2015-1, Q7.35.7]

.716-13 Q—In a tax-increment financing situation, incremental property or sales tax revenues arise from, and are directly attributable to, specific properties or taxpayers. Can the incremental sales or property taxes be reported as program revenues?

A—No. Incremental sales and property taxes should be reported as general revenues in accordance with paragraph ~~.141140~~ of this section. In a typical tax-increment financing situation, a specific portion of a property or sales tax base is enhanced with the expectation that additional taxes will be generated. There is no additional property tax levy—the same levies and rates that apply government-wide produce greater revenue because of the higher assessed valuations of the enhanced properties in the tax-increment district. Similarly, there is no additional surcharge paid by specific retail customers;

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additional revenues are attributable to the normal sales tax rate applied to additional sales within the improved tax-increment district.

[GASBIG 2015-1, Q7.35.8]

- .716-14 Q—If the change in fair value of investments is separately reported, as described in paragraph .131 of Section I50, is it subject to the same program revenue considerations as interest earnings in paragraph .140~~139~~ of this section? How should a change in fair value be reported?

A—An increase in the fair value of investments should be reported as general revenue, unless the earnings on the investments are restricted for a specific purpose. Earnings and increases in fair value that are restricted should be reported as program revenues of the function or program to which they are restricted. Similarly, a decrease in fair value should be reported as a loss in the general revenue section of the statement of activities unless the investments are restricted. If restricted, the decrease in fair value would reduce program revenues of the program or function to which the earnings (or losses) are restricted.

[GASBIG 2015-1, Q7.37.3]

- .716-15 Q—In the statement of activities, should estimated uncollectible taxes be recorded as bad debt expense or a reduction of revenue?

A—Taxes that are estimated to be uncollectible should be accounted for as a reduction of revenue. Paragraphs .113 and .115 of Section N50 require that derived taxes and imposed nonexchange revenues, respectively, should be recognized net of estimated refunds and estimated uncollectible amounts.

[GASBIG 2015-1, Q7.40.2]

- .716-16 Q—A government has a business-type activity that it reports in a separate enterprise fund. The government received a grant meeting the definition of a subsidy from a private foundation and used the grant proceeds to purchase equipment for that activity. How should the grant be reported in the enterprise fund's financial statements? How should it be reported in the government's statement of activities?

A—In the enterprise fund, the answer depends on whether the grant is restricted for capital purposes. In the statement of activities, the answer depends on whether the grant was restricted to the specific activity. If the grant was not restricted for capital purposes but could have been used for any purpose within the activity, the government should report the grant ~~as in the noncapital subsidy classification~~ ~~non-operating revenue~~ in the enterprise fund. On the other hand, if the grant

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was restricted to capital purposes, it would be reported in the other nonoperating revenue classification ~~as a capital contribution~~ in the enterprise fund's statement of revenues, expenses, and changes in fund net position, as illustrated in paragraph .194192 of this section. If the grant was restricted to that specific activity (or function), the government would report it as program revenue (either operating or capital, as appropriate) in the statement of activities. If it was not restricted to that activity (or function), the grant would be reported as general revenue in the statement of activities.

[GASBIG 2015-1, Q7.72.8, as amended by GASBS XX, ¶30]

.717 Program revenues

.717-1 Q—Is there a direct relationship between program revenues and the restricted component of netposition?

A—No. Not all program revenues are restricted. Grants and contributions that are reported as program revenues are restricted by definition, whereas charges for services may be unrestricted or may be restricted to the program that generates the revenue or to a completely unrelated program. In addition, some general revenues are restricted—taxes levied for pension contributions or debt service payments, for example—and may be reported separately as restricted within the general revenue section of the statement of activities.

[GASBIG 2015-1, Q7.32.4]

.717-2 Q—Are governments allowed to report fines and forfeitures separately from other revenues in the charges-for-services category?

A—Yes. As explained in paragraph 54 of the Basis for Conclusions of Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, a government may present significant components of program revenue categories in separate columns under the category heading. For example, if fines and forfeitures are significant, a government may choose to present a separate column for fines and forfeitures under the “Charges for Services” heading, or retitle the single column to be more descriptive—for example, “Charges for Services, Fees, Fines, andForfeitures.”

[GASBIG 2015-1, Q7.33.3]

.717-3 Q—State law explicitly prohibits using revenue from fines to finance the outflows of short-term financial resources ~~expenditures~~ of a public safety, police, or traffic-enforcement function. In this

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circumstance, should fines be reported as general revenue, because they cannot be used to offset the expenses of the specific function that may have generated those revenues?

A—No. Charges for services, which include fines, should be reported as a program revenue of the function that generates it, regardless of whether there are restrictions or limitations on the use of that revenue. Fees, fines, and charges do not have to be based on the cost of the underlying program or function. The concept of “net cost” reporting in the statement of activities is based on the notion that all functions or programs require the use of government resources, and some contribute to the government’s resources by generating revenues through fees, fines, and charges or by accepting grants and contributions from parties outside the government. The “net cost” of a function or program is the difference between (a) expense and (b) the charges, fees, and fines that derive directly from it and the grants and contributions that are restricted to it.

[GASBIG 2015-1, Q7.33.4, as amended by GASBS XX, ¶123]

.717-4 Q—In some communities, revenues from fines can be substantial and may even be one of the most significant revenues in the general fund. Because these communities rely on fines as an important source of financing for many activities, would it be more appropriate to report fines as *general* revenues, similar to other revenues that fund multiple programs?

A—No. As indicated in the answer to Question .717-3 in this section, the use of revenues from fees, fines, and charges does not affect the classification as a program revenue. The only consideration for nontax revenues is: “From which function does the revenue derive?”

[GASBIG 2015-1, Q7.33.5]

.717-5 Q—A city issues and renews business licenses based on a fee schedule established in a specific city ordinance. As a condition of maintaining the license, business establishments also are required to pay the city a “business license tax” that is based on their gross receipts. How should the city report those revenues in its statement of activities?

A—The initial license and the subsequent renewals constitute program revenues— charges for services. The license constitutes a fee for the privilege of operating in the community. The “business license tax” is, nevertheless, a *tax* and should be reported as general revenue.

[GASBIG 2015-1, Q7.33.6]

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.717-6 Q—A state government has a contract with a third-party vendor to provide website applications and services. The service contract includes a web-based payment system for individual and occupational licenses. The fees for the licenses are the same as those charged to applicants outside the web-based system. The service contract also allows the third-party vendor to charge the applicants an additional amount (a convenience fee), which is collected and retained by the vendor. Should the state recognize the convenience fee as a revenue and expense?

A—No. Even though the charging and collecting of the fee is authorized in the contract with the state, it is not a state charge. Rather, it is a transaction between the web service provider and the license applicants.

[GASBIG 2015-1, Q7.33.7]

.717-7 Q—If a state receives a grant from the federal government and subsequently “passes through” that grant to local government secondary recipients for capital purposes, should the state report its revenue in accordance with Section N50 as a capital grant?

A—No. The grant should be reported as “capital” only if it is restricted to the acquisition, construction, or improvement of the state’s capital assets. The state should report the revenue as an operating grant (program revenue) and the subsequent pass-through to the local governments as an expense.

[GASBIG 2015-1, Q7.34.6]

.717-8 Q—Are operating special assessments considered general revenues like property taxes? Both revenues derive from property owners.

A—No. Although both special assessments and property tax revenues are derived from property owners, as indicated in paragraph .138~~137~~ of this section, operating special assessments are program revenues. Operating special assessments differ from property taxes in the sense that only the property owners who benefit from the special assessment project are assessed. For example, the property owners in a remote area of town want additional snow-plowing services and agree to a special assessment to pay the town for those additional services. Only the property owners whose streets are plowed (rather than the entire real estate tax base) are assessed; thus, the assessments are equivalent to *charges for services* and qualify as program revenues.

[GASBIG 2015-1, Q7.36.1]

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.717-9 Q—Are *capital* special assessments program revenues?

A—Yes. Capital special assessments qualify as program revenues in the “program-specific capital grants and contributions” category. As described in paragraph .105 of Section S40, capital special assessments enhance the utility, accessibility, or aesthetic value of the affected properties. The benefited property owners pay the government for those improvements through special assessments, either in a lump sum or in installments over time. Paragraphs .119, .122, and .123 of Section S40 ~~this section~~ characterize the property owner assessments as *capital contributions*.

[GASBIG 2015-1, Q7.36.2]

.717-10 Q—If the earnings of a permanent fund, which are required to be used for a specific purpose, are not distributed in the current year but rather are left to accumulate and carry over to next year, should the earnings be reported as program revenue, as required by paragraph .140139 of this section, in the current year?

A—Yes. The statement of activities is based on functions or programs, not *funds*. Therefore, regardless of fund structure or internal cash flows, the investment earnings should be reported when earned as program revenues of the function to which they are restricted, even if they are not distributed or spent. (See Question .717-16 in this section.)

[GASBIG 2015-1, Q7.37.1]

.717-11 Q—A state government accounts for certain assets in a permanent fund. The fund is managed and controlled by officials in the *transportation* function, but a portion of the earnings on the permanent fund investments is restricted for *public safety* purposes. How should the state report the public safety portion of the earnings—as program revenue of the transportation function because they are generated from within that function, or as program revenue of the public safety function because they are restricted to it?

A—The investment earnings should be reported as program revenue of the public safety function. Legally restricted investment earnings are similar in nature to program-specific grants and contributions. Paragraph .137136 of this section emphasizes that grants and contributions are program revenues of the function to which they are restricted.

[GASBIG 2015-1, Q7.37.2]

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.717-12 Q—State law requires that 20 percent of the state’s lottery sales revenue be used for elementary and secondary education programs in the state. Should the 20 percent be allocated to the *education* function as program revenue?

A—No. Ticket sales are program revenues of the *lottery* function. As defined in paragraph ~~.137136~~ of this section, the revenue derives directly from the program itself. However, presentation of charges for services as program revenue does not necessarily imply that those resources are restricted to that program. The lottery’s net program revenue (a portion of which is restricted to elementary and secondary education programs) reduces the state’s need to use general revenues to support the education function.

[GASBIG 2015-1, Q7.39.3]

.717-13 Q—State gas taxes are shared with eligible local governments. The local governments have discretion over when and how the money is spent, as long as it is for road and highway projects. Even though a high percentage of the revenue will likely be spent for capital purposes, maintenance and repair expenses are also allowable. How should the revenue (grants and contributions) be reported by the local governments—capital, operating, or some combination?

A—The local governments should report the gas tax revenues as *operating* grants and contributions. Paragraph ~~.139138~~ of this section requires that classification because the revenues may be used *either* for operating expenses *or* for capital ~~outlay~~ expenditures of the program at the discretion of the reporting government.

[GASBIG 2015-1, Q7.39.4, as amended by GASBS XX, ¶127]

.717-14 Q—A government charges indirect expenses to its human services program through an indirect cost plan and is reimbursed by the federal and state grantor agencies for the costs of the program. However, in the statement of activities, the government does not allocate the indirect expenses to the human services program, but rather reports them in the general government function. Should the portion of the grant that reimburses the *indirect* expense be reported as program revenues of the human services or general government function?

A—The reimbursement should be reported as program revenue of the function or program that includes the reimbursed expenses. If indirect expenses are not allocated to the human services program in the statement of activities, the indirect expense portion of the grant should be reported as program revenue of the general government function. If the indirect expenses

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are allocated, the entire reimbursement should be reported as program revenue of the human services program.

[GASBIG 2015-1, Q7.39.5]

.717-15 Q—A local school district charges tuition for out-of-district students in the regular curriculum and for some students in special education, vocational education, and adult education programs. The tuition-paying students enjoy the full benefits of enrollment and receive the same support services as other students. Thus, their tuition “covers” administrative and support services as well as instruction. Is the district required to allocate tuition revenue over the various *non-instruction* functional categories?

A—No. The tuition is generated by specific *instruction* functions and should be reported as a program revenue—charges for services—of the appropriate instruction categories.

[GASBIG 2015-1, Q7.39.6]

.717-16 Q—Where should investment earnings that qualify as program revenues be reported?

A—Legally restricted earnings as discussed in paragraph 140139 of this section generally are similar in nature to program-specific grants and contributions and would be reported in either the capital or operating column, as appropriate. (See Question .720-1 in this section about using more than one column for program revenue categories; see also Question .717-10 in this section.)

[GASBIG 2015-1, Q7.39.7]

.717-17 Q—Section N50 requires *nonexchange revenues* to be recognized net of estimated refunds and estimated uncollectible amounts. Footnote 4644 of this section requires *proprietary fund revenues* to be recognized net of discounts and allowances. How should uncollectible *exchange* transaction revenues of governmental activities be reported in the statement of activities?

A—Consistent with the requirements in Section N50 and footnote 4644 of this section, exchange revenues for governmental activities should be reported *net of uncollectible amounts*.

[GASBIG 2015-1, Q7.40.3]

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.718 General revenues

.718-1 Q—Does the requirement to report *all taxes* as general revenues in paragraph ~~.141140~~ of this section apply to taxes imposed by another government that are shared with the reporting government?

A—No. The requirement in paragraph ~~.141140~~ applies to taxes levied or imposed by the reporting government on its own taxpayers. Taxes imposed or levied by another government and shared with the reporting government are regarded as *shared revenues* and should be reported as either program or general revenue based on the requirements in paragraph ~~.139138~~ of this section. (See Question .716-8 in this section.)

[GASBIG 2015-1, Q7.35.1]

.718-2 Q—A county government imposes a separate sales tax, the proceeds of which are required to be used for public safety *or* health and welfare programs. Because of the restrictions on use, these taxes are not “discretionary” revenues. Should they be reported as program revenues of the public safety and health and welfare functions?

A—No. As taxes imposed by the reporting government, they should be reported as general revenues. General revenue is not synonymous with discretionary revenue. Even though the taxes cannot be used for any other purposes, they are general revenues, as stated in paragraph ~~.141143~~ of this section. Program revenues, as defined in paragraph ~~.137136~~ of this section, derive directly from the program itself or from parties outside the reporting government’s taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government’s general revenues. These derived tax revenues are levied against *all* sales transactions—not only those within the public safety and health and welfare environments. Thus, the revenues do not derive directly from the programs themselves, but rather they are *restricted* general revenues provided by the reporting government’s constituency to finance the net cost of *specific* programs. (See Question .718-3 in this section about separately reporting dedicated tax revenues.)

[GASBIG 2015-1, Q7.35.2]

.718-3 Q—If a city levies a special property tax that is restricted for use within a specific program or function (a separate property tax levied to pay debt service costs, for example), is that property tax revenue considered a *program* revenue?

A—No. Even though the taxes are required to be used for a specified purpose within a single function, they are, nevertheless, general revenues. In

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this example, the special property tax levy does not *reduce the net cost* of the general government function to the city's taxpayers. Rather, it is one source of revenues from the city's taxpayers to *pay the net cost* of the general government function. The government can, however, report the dedicated property taxes as a separate line item in the general revenues section. (See Exhibit 22 in nonauthoritative paragraph .903 of this section.)

[GASBIG 2015-1, Q7.35.3]

.718-4 Q—A county government has enacted a transient occupancy (hotel–motel) tax, a percentage of which is required to be used for “tourism” programs in the county. The county has significant tourism activity and reports it as a separate function in its statement of activities. The county maintains that the revenue comes from “those who directly benefit from the goods or services of the program” and consequently should be reported as charges for services. Should those taxes be reported as program revenues?

A—No. Despite the argument that the taxes are tantamount to user fees generated by the tourism program, they are nevertheless taxes and should be reported as general revenue (restricted to tourism programs), as required by paragraph .~~141~~~~143~~ of this section. The relationship of the program to the tax is too indirect to be treated as user fees. Although the lodging industry in the county certainly benefits from the tourism activity, it is not reasonable to assume that it results from it. For example, many travelers use lodging facilities but do not engage in “tourism” activities. (See Question .718-3 in this section about separately reporting dedicated tax revenues.)

[GASBIG 2015-1, Q7.35.4]

.718-5 Q—A developer is near completion of an industrial park. In accordance with city laws and regulations, the developer is required to make a one-time contribution of resources to the city when the industrial park's infrastructure is substantially complete to assist the city in maintaining the infrastructure. The resources required to be contributed are based on the assessed value of the developed property. How should the contribution by the developer be reported?

A—The contribution should be reported as general revenue (and may be reported separately as “restricted for infrastructure maintenance”). Even though the contribution appears to meet the definition of a *program-specific grant* in paragraph .~~139~~~~138~~ of this section, it nevertheless arises from an imposed nonexchange transaction that is, in substance, a tax. The unspent

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resources should be reported as a restricted component of net position (for example, restricted for infrastructure maintenance) in the city's statement of net position.

[GASBIG 2015-1, Q7.35.5]

.718-6 Q—Are operating special assessments considered general revenues like property taxes? Both revenues derive from property owners.

A—No. Although both special assessments and property tax revenues are derived from property owners, as indicated in paragraph .138~~137~~ of this section, operating special assessments are program revenues. Operating special assessments differ from property taxes in the sense that only the property owners who benefit from the special assessment project are assessed. For example, the property owners in a remote area of town want additional snow-plowing services and agree to a special assessment to pay the town for those additional services. Only the property owners whose streets are plowed (rather than the entire real estate tax base) are assessed; thus, the assessments are equivalent to *charges for services* and qualify as program revenues.

[GASBIG 2015-1, Q7.36.1]

.718-7 Q—Are *capital* special assessments also program revenues?

A—Yes. Capital special assessments qualify as program revenues in the “program-specific capital grants and contributions” category. As described in paragraph .105 of Section S40, capital special assessments enhance the utility, accessibility, or aesthetic value of the affected properties. The benefited property owners pay the government for those improvements through special assessments, either in a lump sum or in installments over time. Paragraphs .119, .122, and .123 of Section S40 characterize the property owner assessments as *capital contributions*.

[GASBIG 2015-1, Q7.36.2]

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.719 Reporting contributions to term and permanent endowments, contributions to permanent fund principal, ~~transfers, special and unusual or infrequent~~ extraordinary items, and transfers

See also Question .704-2 in Section 1300 regarding reporting permanent fund endowments by special-purpose governments engaged only in business-type activities, Question .753-3 in this section regarding reporting investment income restricted to increasing term or permanent endowments, and Question .753-4 in this section regarding reassignment of a capital asset between enterprise fund and governmental activities.

.719-1 Q—A local government receives a large bequest from the estate of a wealthy benefactor. The corpus of the donation cannot be spent but instead is required to be invested to provide earnings that are restricted to a special use. Because the principal amount can never be spent, how should it be reported?

A—The government should account for the bequest in a permanent fund. (See Question .704-2 in Section 1300.) In the governmental fund statements, the donation should be reported as an inflow of short-term financial resources ~~revenue~~ and ultimately would be included in nonspendable fund balance. For the government-wide statement of activities, paragraph ~~.142141~~ of this section requires contributions to permanent funds to be reported separately from, but in the same manner as, general revenues. That is, these sources of financing the net cost of the government's programs should be reported at the bottom of the statement of activities to arrive at the all-inclusive change in net position for the period. In the government-wide statement of net position, the corpus of the donation should be included in the restricted component of net position, nonexpendable. (See also Question .712-1 in this section about how permanent endowments are reported in net position.)

[GASBIG 2015-1, Q7.42.1, as amended by GASBS XX, ¶122]

.720 Statement of Activities Format

.720-1 Q—Are governments allowed to report fines and forfeitures separately from other revenues in the charges-for-services category?

A—Yes. As explained in paragraph 54 of the Basis for Conclusions of Statement 37, a government may present significant components of program revenue categories in separate columns under the category heading. For example, if fines and forfeitures are significant, a government may choose to present a separate column for fines and forfeitures under the “Charges for Services” heading, or retitle the single column to be more descriptive—for example, “Charges for Services, Fees, Fines, and Forfeitures.”

[GASBIG 2015-1, Q7.33.3]

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.720-2 Q—In order to provide adequate space for complete comparative statements of activities, can a government report its program revenues in a single column with the required details provided in the notes to the financial statements?

A—No. Paragraph ~~.137136~~ .137136 of this section is explicit. It states that the statement of activities *should separately report three categories of program revenues*. Therefore, each category of program revenue should be displayed in one or more columns. Disclosure is not a substitute for display. Comparative statements are not required, but Question .706-3 in this section discusses how governments might present comparative data and statements. (See Question .720-1 in this section about using more than one column for a category of program revenues.)

[GASBIG 2015-1, Q7.39.1]

.720-3 Q—Can revenue items, such as fines and forfeitures, licenses and permits, and intergovernmental revenues (for specific programs), be netted against expenses in the statement of activities?

A—No. Program revenues should not be “netted” against expenses—program expenses should be reported at the gross amount.

[GASBIG 2015-1, Q7.39.2]

.721 Unusual or Infrequent ~~Special and Extraordinary~~ Items

A—

~~.721-1 Q—What is the difference between “extraordinary” items and “special” items?~~

~~A—Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. Special items differ from extraordinary items in two ways. The first difference is that special items should be within the control of management, whereas extraordinary items are not required to be within the control of management. The other difference is that extraordinary items are required to be both unusual in nature and infrequent in occurrence, whereas special items are only unusual in nature or infrequent in occurrence, but not both.~~

~~Determining whether an event or transaction is extraordinary or special and therefore should be reported separately is a matter of professional judgment and should be done on a case-by-case basis considering geographic location and size and type of government. An event that is infrequent in occurrence for one government may be commonplace for another. Similarly,~~

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~~what is unusual for one government may be ordinary for another. Examples of events or transactions that may qualify as extraordinary or special items may include:~~

Extraordinary items:

- ~~• Costs related to an environmental disaster caused by a large chemical spill in a train derailment in a small city.~~
- ~~• Significant damage to the community or destruction of government facilities by natural disaster (tornado, hurricane, flood, earthquake, and so forth) or terrorist act. Geographic location of the government may determine if a weather-related natural disaster is *infrequent*.~~
- ~~• A large bequest to a small government by a private citizen.~~

Special items:

- ~~• Sales of certain general governmental capital assets~~
- ~~• Termination benefits resulting from workforce reductions due to sale of utility operations~~
- ~~• Early retirement program offered to all employees~~
- ~~• Significant forgiveness of debt~~
- ~~• Gains or losses on the disposal of government operations~~
- ~~• Net position received or assumed by a continuing government in a transfer of operations.~~

~~[GASBIG 2015-1, Q7.43.2] superseded by GASBS XX, ¶19~~

~~.721-2 Q—Can a transaction or event meet the definition of *both* an extraordinary item *and* a special item? If so, how should it be reported?~~

~~A—No. If a transaction or event is both unusual in nature and infrequent in occurrence, it should be reported as an extraordinary item without regard to management involvement.~~

~~[GASBIG 2015-1, Q7.43.4] [superseded by GASBS XX, ¶19]~~

.722 Adjustment of amounts reported in prior periods

No questions assigned.

.723 Eliminations and Reclassifications

.723-1 Q—If a government chooses to present a total column for the financial reporting entity, what eliminations should be made?

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A—Paragraphs ~~.153-.155~~~~152-154~~ of this section provide guidance for eliminations for presentation of the required total column for the primary government. If the government chooses to present a total column for the financial reporting entity, the same considerations as set forth in paragraphs ~~.153-.155~~~~152-154~~ of this section would apply.

[GASBIG 2016-1, Q4.10]

.724 Internal balances—statement of net position

.724-1 Q—Paragraph ~~.153~~~~152~~ of this section states that internal balances should be eliminated from the total primary government column. However, because some governments have blended component units with different fiscal years, the internal accounts may be “out of balance” at the reporting date due to the timing difference. In those situations, is it acceptable to report an internal balance in the total primary government column?

A—Yes. In those instances, the total primary government column would report an internal balance. Paragraph .120 of Section 2600 requires the reason for the imbalance to be disclosed in the notes.

[GASBIG 2015-1, Q7.22.10]

.725 Internal activities—statement of activities

.725-1 Q—How should internal activity be reported in the government-wide statement of activities?

A—An objective in the statement of activities is to avoid “grossing up” expenses and revenues because of internal activity. With regard to expenses, the issue is whether the amount charged or allocated to a program is a direct expense or an indirect expense. For example, if it is a *direct* expense of Program A that was paid for by Program B, the amount should be included in the direct expenses of Program A. On the other hand, if it is an *indirect* expense—allocating the utility bill for the administration building, for instance—the allocation should either be reversed completely or be reversed and then reported in a separate indirect expense column in the statement of activities.

With regard to the provider of the goods or services, the question is whether the amount received is a program revenue or a reimbursement that reduces the expenses of the “charging” program. In other words, is one program the “customer” of another program, or is the reason for the transaction simply to allocate a common expense over several programs or functions? It also might be helpful to consider whether the sale of the goods or services

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is a normal operating activity of the function that makes the charge. (See also Question .715-5 in this section.)

[GASBIG 2015-1, Q7.47.1]

.725-2 Q—A state Department of Administration pays the state’s phone bill to the telephone company. The department is subsequently reimbursed through interagency billings (to the various state agencies). Are the payments to the department from the agencies’ program revenues or reimbursements? Are the charges direct expenses of the agencies?

A—The Department of Administration’s telephone expense would be reduced by the internal charges (a reimbursement). The department is not a telephone company and the agencies are not its telephone customers; thus, reporting the amount as program revenue would be inappropriate. To the extent that charges can reasonably be identified to specific functions (by actual usage information, for example), they should be included in the direct expense of the functions.

[GASBIG 2015-1, Q7.47.2]

.725-3 Q—How is the “effect” of internal service fund activity eliminated, as required by paragraph .154153 of this section?

A—As explained in paragraph 314 of the Basis for Conclusions of Statement 34, eliminating the “effect” of internal service fund activity requires preparers to “look back” and adjust the internal service fund’s internal charges to break even. Internal service fund net income from internal activity would cause a pro rata *reduction* in the charges made to the participating funds or functions. Conversely, an internal service fund net loss from internal activity would require a pro rata *increase* in the amounts charged to the participating funds or functions. Exercise 1 in nonauthoritative paragraph .907 of this section provides an example of eliminating the effect of internal service funds.

[GASBIG 2015-1, Q7.47.6]

.725-4 Q—In eliminating the effects of internal service fund activity, what happens to transactions with outside parties?

A—The internal service fund activity pertaining to outside parties is not eliminated, but instead would be included with the appropriate function in the

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statement of activities. Exercise 1 in nonauthoritative paragraph .907 of this section includes an internal service fund that conducts business with outside parties.

[GASBIG 2015-1, Q7.47.8]

.725-5 Q—In addition to transactions with outside parties, are there any other revenues or expenses of an internal service fund that are excluded from the “look-back” adjustment? (See Questions .725-3, .725-4, and .727-1 in this section.)

A—Yes. In some instances an internal service fund operation includes revenues and expenses that are not “internal” or includes elements that are reported separately in the statement of activities. For example, investment income is generally reported separately in the general revenues section of the statement of activities; therefore, if an internal service fund has significant investment income, that amount should be included with investment income, rather than allocated among the various participating functions or programs. Similarly, interest expense is generally reported as a separate expense category in the statement of activities. Therefore, if an internal service fund has significant interest expense, that amount should be allocated to the interest expense line item, rather than the various functions or programs. In addition, grants and contributions from external parties, if included in the calculation for the look-back adjustment, would have the effect of understating the direct expenses of the participating functions or programs. Consequently, those grants and contributions should be reported in the statement of activities as program or general revenues, as appropriate.

[GASBIG 2015-1, Q7.47.9]

.725-6 Q—Does the requirement to eliminate interfund reimbursements in paragraph .102b(2) of Section 1800 apply to internal service funds?

A—No. Cost reimbursement, as explained in paragraph .110 of Section 1300, is an essential characteristic of internal service funds. The reimbursements from other funds constitute the revenues of an internal service fund. For government-wide reporting purposes, however, the requirement in paragraph .1541-53 of this section to eliminate the “doubling-up” effect of internal service fund activity causes those internal service fund revenues to be treated as if they were reimbursements.

[GASBIG 2015-1, Q7.47.10]

.725-7 Q—A government accounts for its central supplies activity in the general fund and charges other funds for the cost of supplies used. The payments

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from the other funds are recorded as revenue in a general fund account called “interfund charges.” Should that “revenue” be eliminated for the statement of activities, or does it constitute program revenue of the general government function?

A—Paragraph .102a(2) of Section 1800 defines interfund services provided and used as sales and purchases of goods and services between funds for a price approximating their external exchange value. It also states that interfund services provided and used should be reported as inflows of short-term financial resources or revenues in seller funds and outflows of short-term financial resources or expenses in purchaser funds. The paragraph defines interfund reimbursements as repayments from the funds responsible for particular outflows of short-term financial resources or expenses to the funds that initially paid for them. It further stipulates that reimbursements should not be displayed in the financial statements.

Paragraph .154153 of this section requires reimbursement-type activity to be eliminated for the statement of activities, so that the allocated (reimbursed) expenses are reported only by the function to which they were allocated. Conversely, paragraph .155154 of this section *prohibits* the elimination of interfund services provided and used. The interfund activity described in this question meets the definition of a *reimbursement*. (See Question .725-8 in this section.) Therefore, the government should not display the “revenue,” but should instead reduce the appropriate expenses (in the function from which they were initially paid) for the reimbursed amounts. This process in effect “eliminates” the interfund activity for the statement of activities.

[GASBIG 2015-1, Q7.47.11, as amended by GASBS XX, ¶22 and ¶23]

.725-8 Q—What distinguishes the interfund charges for supplies by the general fund in Question .725-7 in this section from the interfund charges for water or electric use by a utility fund in paragraph .155154 of this section?

A—The purchase and resale of office supplies is not a program of the general fund. Rather, as an economy and efficiency measure, the government uses the general fund to buy office supplies and spreads the cost to programs based on use or requisitions. On the other hand, the treatment and distribution of water and the generation and sale of electricity are programs of the utility funds. The government’s programs are purchasers of the utility fund’s services (like its other customers); therefore, the internal activity is characterized as interfund services provided and used rather than reimbursements.

[GASBIG 2015-1, Q7.47.12]

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.725-9 Q—A city charges its departments and programs for building permits in connection with construction of and improvements to its own buildings. Should these internal revenues and expenses be eliminated for the statement of activities?

A—No. Paragraph ~~.155154~~ of this section states that the effect of interfund services provided and used *between functions* should *not* be eliminated because to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. If the purchase and sale of the permits are within the *same* function, the expenses and revenues should be eliminated to remove the grossing up of both direct expenses and program revenues within that category. However, as discussed in paragraph 315 of the Basis for Conclusions of Statement 34, as a practical matter, eliminations of this kind are not necessary unless the effect on direct expenses or program revenues is material. (See Question .716-3 in this section about program revenues.)

[GASBIG 2015-1, Q7.47.13]

.725-10 Q—Is a government required to eliminate an “indirect” element of interfund charges by reversing the portion of the charges that is attributable to overhead markup?

A—No. As stated in paragraph ~~.132131~~ of this section, the government is not required to reduce the interfund charges to eliminate the indirect portion of the amount charged. For example, if a government accounts for its central supplies activity in the general fund and charges other funds for supplies used plus an additional amount to cover “overhead” costs—such as a percentage of certain office employees’ salaries and related office expenses—it would not be required to eliminate the overhead markup. However, the summary of significant accounting policies should disclose that “direct expenses” includes that element.

[GASBIG 2015-1, Q7.47.14]

.725-11 Q—What is the difference between “overhead expenses” discussed in paragraph ~~.154153~~ of this section (which should be eliminated), and “administrative overhead charges” referred to in paragraph ~~.132131~~ of this section (which need not be eliminated)?

A—There really is no difference in the two terms, but there is a difference in the objectives of the two paragraphs. The intent in paragraph ~~.154153~~ is to eliminate the “doubling up” of internal allocations (that is, reducing the expenses of the allocating function by the amount allocated [the internal “revenue”] to others) so that only one function reports the expense. The concept

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is similar to accounting for interfund reimbursements. The provision in paragraph .1321-31 is a practical consideration that relieves governments of the burden of removing and reclassifying any “indirect” elements of internal charges from the *direct* expenses of a function. (See the examples in Questions .725-7 and .725-10 in this section.)

[GASBIG 2015-1, Q7.47.15]

.725-12 Q—To what extent should interfund transfers be eliminated for the statement of activities?

A—Interfund transfers, as defined in paragraph .102b(1) of Section 1800, *within* governmental activities and *within* business-type activities should be eliminated for the statement of activities. Only the net amount transferred *between* governmental and business-type activities should be reported. The internal “eliminations” can be achieved and the “net” amount easily determined by combining transfers in and transfers out within each category as a single “transfers” amount for the statement of activities.

[GASBIG 2015-1, Q7.47.16]

.725-13 Q—A state maintains an internal service fund to account for its telecommunications system, including debt service on bonds issued to purchase the equipment. The state reports the telecommunications equipment as an asset and the related bonds as a liability of the internal service fund and charges the various state departments for equipment usage. How will the expenses of the internal service fund be allocated among the governmental and business-type activities in the statement of activities?

A—There are three main components of this internal service fund’s expenses—interest on the debt, depreciation of the assets, and other operating expenses. In essence, the charges made to the participating departments already “allocate” the internal service fund’s expenses to the governmental and business-type activities. For reporting in the statement of activities, however, two adjustments are necessary: (a) to identify interest expense for separate reporting and (b) to eliminate the “doubling-up” effect of internal charges.

As explained in paragraph 314 in the Basis for Conclusions of Statement 34, eliminating the “effect” of internal service fund activity requires preparers to “look back” and adjust the internal service fund’s internal charges to break even. However, because interest expense should be reported separately, it first should be added back to the net revenue or expense of the internal service fund. (See Question .725-5 in this section.) The remaining *net* revenue or expense can then be allocated among the participating functions in the same ratio as the original use charges. This process is illustrated

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in Exercise 1 of nonauthoritative paragraph .907 of this section. It is not necessary to make additional adjustments for depreciation expense of the internal service fund assets, but the amount of depreciation expense included in the internal service fund charges should be included in the disclosure required by paragraph .118d of Section 2300.

[GASBIG 2015-1, Q7.47.17]

.725-14 Q—A government has several internal service funds that provide goods and services to fiduciary funds. Are these fiduciary funds considered “outsiders” and not included in the elimination of internal activities as required by paragraph ~~.154153~~ of this section.

A—Transactions with fiduciary funds are considered to be “internal” for purposes of determining if an activity qualifies for reporting as an internal service fund. However, because fiduciary funds are not included in the statement of activities, they are treated as “external” when eliminating the effect of internal transactions.

[GASBIG 2015-1, Q7.47.20]

.725-15 Q—A city maintains an internal service fund to account for its risk financing activities. The charges to participating funds include a reasonable provision for future catastrophe losses, in accordance with paragraph .128c of Section C50. Paragraph ~~.154153~~ of this section requires the city to eliminate the effect of internal service fund activity. How does the requirement in paragraph ~~.154153~~ affect the reporting of the internal charges and the accumulated resources?

A—As explained in paragraph 314 of the Basis for Conclusions of Statement 34, eliminating the effect of internal service fund activity requires preparers to “look back” and adjust the internal service fund’s internal charges to break even. Thus, the excess amounts charged to the funds to provide for future catastrophe losses would be eliminated in the look-back adjustment, so that the expenses reported by the functions or programs in the statement of activities are in accordance with the expense recognition requirements of paragraphs .110–.114 of Section C50. The additional charge to the funds to provide for future catastrophe losses does not constitute an *expense* in the statement of activities, but rather is a transfer device for accumulating resources for a specified purpose. The accumulated resources in the internal service fund should be disclosed in the notes as intended for future catastrophes, in accordance with paragraph .129 of Section C50.

[GASBIG 2015-1, Q7.47.21]

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.725-16 Q—An internal service fund sells some of its capital assets to another government. How should the loss or gain on the sale be reported on the statement of activities?

A—The amount would be reported in the same fashion as other sales to outsiders—that is, as a direct expense or as a general revenue—or if “unusual or infrequent,” as an unusual or infrequent~~special,” as a special~~ item.

[GASBIG 2015-1, Q7.47.22, as amended by GASBS XX, ¶19 and ¶10]

.725-17 Q—How should transactions between a university and its auxiliary enterprises be reported? Should they be eliminated for the statement of revenues, expenses, and changes in fund net position?

A—If the university reports its activities as both governmental and business-type, internal activity should be reported in accordance with the provisions of paragraph .102 of Section 1800 and eliminations made as required by paragraphs .104 and .105 of that section. However, if the university is reported as a single-column BTA, internal transactions between the university and its auxiliary enterprises should be eliminated in the consolidation process.

[GASBIG 2015-1, Q7.47.23]

.725-18 Q—A city government is preparing its government-wide statements and is in the process of allocating the look-back adjustment for its internal service funds. A portion of the adjustment pertains to the enterprise fund operations. The answer to Question .727-1 in this section states that the “crossover” amount should be reported as an internal balance in the government-wide statement of net position. Could the city instead report the crossover amount as a *transfer* in the statement of activities because the adjustment will not be made in the fund financial statements and will not be “repaid”?

A—No. To conclude that the amount representing an over- or under-charge by an internal service fund is a permanent transfer is contradictory to the principle that internal service funds should be operated on a break-even basis, with excesses or deficiencies eliminated within a reasonable time through adjustments to future internal charges. As the internal charges are adjusted over time, and as over- and under-charges fluctuate from year to year, the internal balance reported in the statement of net position will rise and fall but should not grow to a significant amount.

[GASBIG 2015-1, Q7.47.24]

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.726 Intra-entity activity

No questions assigned.

.727 Reporting Internal Service Fund Balances

.727-1 Q—The assets and liabilities of a city’s internal service fund are reported with governmental activities in the government-wide statement of net position. However, the “look-back” adjustment for the internal service fund includes a significant “undercharge” involving the water utility enterprise fund. As a result, the *internal balances* reported in the statement of net position are adjusted, as illustrated in Exercise 1 of nonauthoritative paragraph .907 of this section. How does this year’s internal balance adjustment affect the statement of net position next year?

A—That portion of a look-back adjustment that crosses activity classes is referred to as the “crossover” amount because some of the change statement expenses are allocated to one activity class (business-type), but *all* of the net position is reported in the other activity class (governmental). The *accumulated* cross-over adjustments should be carried forward from the prior year’s statement of net position. The accumulated internal balance arising from prior years’ crossover look-back adjustments is recognized in the reconciliations of government-wide net position to fund balances/net position in the funds. The adjustment is similar to the reconciling items needed to report governmental capital assets and liabilities—that is, to report balances that are included in the government-wide statements, but not in the funds. The reconciliations for both governmental and enterprise funds will need to include this item, because *interfund* balances (in the fund financial statements) are not adjusted for the look-back amounts. (See also Question .725-18 in this section.)

[GASBIG 2015-1, Q7.47.7]

.727-2 Q—How will the assets and liabilities of the internal service fund in Question .725-13 in this section be reported in the statement of net position?

A—The capital assets and the long-term liabilities of the internal service fund constitute general capital assets and general long-term liabilities, respectively, and therefore should be reported in the governmental activities column. The “look-back” adjustment that results from eliminating the effects of the internal service fund’s charges to business-type activities would increase or decrease the internal balances reported in the statement of net position. An example of this process is illustrated in Exercise 1 in nonauthoritative paragraph .907 of this section. Exercise 1 also includes an internal service fund

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that serves *only* enterprise funds. (See also Question .727-1 in this section about carrying forward accumulated “look-back” adjustments.)

[GASBIG 2015-1, Q7.47.18]

.727-3 Q—A state investment board is responsible for managing the investments of several state funds, including pension funds, internal service funds, enterprise funds, and governmental funds. The board is funded solely by service fees charged to these other funds and is reported as an internal service fund. A high percentage of the state investment board’s activity pertains to the pension funds. Because fiduciary funds are not presented in the government-wide statements, should this internal service fund be included with governmental or business-type activities?

A—The balances of the internal service fund should be included with *governmental* activities in the government-wide statement of net position. The balances would be included with business-type activities only if *enterprise funds* are the predominant or only participants. The investments and related income, gains, and losses of the internal investment pool itself should be allocated to the participating funds and reported in accordance with paragraph .132 of Section I50.

[GASBIG 2015-1, Q7.47.19]

.728 Basic Financial Statements—Fund Financial Statements

See Question .727-1 in Section 2250 for a discussion of correction of an error in previously issued financial statements.

.729 Focus on Major Funds

.729-1 Q—Paragraph ~~.160159~~ of this section permits governments to report as a major fund any other governmental or enterprise fund that the government’s officials believe is particularly important to financial statement users. Are those “voluntary” major funds accorded the same materiality status as the funds that are *required* to be reported separately based on the percentage criteria in paragraph ~~.160159~~?

A—Yes. After a fund is determined to be major, there is no distinction between those that were required to be reported as major and those that were voluntarily designated as major. As discussed in the answer to Question .702-5

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in this section, materiality assessments should consider both quantitative and *qualitative* characteristics.

[GASBIG 2015-1, Q7.4.3]

.729-2 Q—Are major component units equivalent to major funds with regard to assessing materiality?

A—No. There are similarities, but major funds and major component units are not equivalent. Financial statements for major funds and financial information for major component units are required to be separately reported in the basic financial statements. Even though the separate reporting requirements of major component units and major funds appear to be similar, the criteria used to determine major funds differ from the considerations involved in selecting major component units, and there are other important differences—for example:

- Paragraph ~~.159158~~ of this section requires governments to present each major *fund* in a separate column in the appropriate fund financial statements. Governments ~~can~~ meet the major *component unit* reporting requirements of Section 2600 ~~in three ways~~: by using multiple columns and rows in the government-wide financial statements or, by including combining statements in the basic financial statements, ~~or by presenting condensed financial information in the notes.~~
- Paragraph ~~.217214~~ of this section states that the component unit *overview* reporting requirements in Section 2600 are met by discrete presentation in the government-wide statements. If major component units are not displayed separately in the government-wide statements, major component unit reporting ~~(in combining statements or notes)~~ provides the *supporting details* of that *overview* presentation, as indicated in Section 2600. In contrast, major *funds* are regarded as separate reporting units rather than supporting details of a fund category or the government-wide statements.
- Disclosures for a major component unit are required if deemed essential for fair presentation of the *reporting entity's* financial statements (paragraph .123 of Section 2600). Disclosures for major funds are accorded a higher level of significance in paragraph .123 of Section 2600, which states that “the notes should focus on the primary government—specifically, its governmental activities, business-type activities, *major funds*, and nonmajor funds in the aggregate” (emphasis added).
- Separate audited financial statements are generally issued for major (and nonmajor) component units. The information presented in the reporting entity's financial statements may be taken from those separate financial statements without substantive modification.

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Those differences should be considered in making materiality determinations for major component units when preparing the reporting entity's financial statements.

[GASBIG 2015-1, Q7.4.4, as amended by GASBS XX, ¶33]

.729-3 Q—For governments that prepare a CAFR, does this section affect the requirement to provide combining statements by fund type?

A—This section does not amend the CAFR requirements to provide combining statements by fund type, except to limit the combining statement requirement to *nonmajor* funds. Footnote ~~3028~~ of this section states, “Combining statements for nonmajor funds are not required, but may be presented as supplementary information.” (Optional combining statements are illustrated in Exhibits 15–19 in nonauthoritative paragraph .902 of this section.)

[GASBIG 2015-1, Q7.48.2]

.729-4 Q—Can major funds be presented in a combined column with details provided in a combining statement, or should each major fund be presented in a separate column in the fund financial statements?

A—Each major fund should be presented in a separate column. Paragraph ~~.161160~~ of this section clearly states that fund statements should present the financial information of each major fund in a separate column. As explained in paragraph 381 in the Basis for Conclusions of Statement 34, the major fund reporting requirements were instituted because users wanted information about important individual funds that is obscured when it is embedded in fund types. Combining the funds in a major funds column would similarly obscure the information about important individual funds.

[GASBIG 2015-1, Q7.55.1]

.729-5 Q—Can governments use more than one column for nonmajor funds—for example, separate columns by fund type?

A—No. Paragraph ~~.161160~~ of this section states that nonmajor funds should be aggregated and presented in a single column. If a government wants to present a specific fund separately in the basic financial statements, even if it does not meet the percentage criteria, it should be reported as a major fund, rather than as a separate nonmajor fund.

[GASBIG 2015-1, Q7.55.2]

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.729-6 Q—Is it allowable to report a particular fund (a capital projects fund, for example) as a major fund for only one or two years?

A—Yes. Although many funds will continue to pass the major fund test year after year, capital projects funds often experience uneven levels of outflows of short-term financial resources~~expenditure levels~~ and may exceed the major fund percentages for only a brief period (or sporadically over a longer period). Governments can, however, in the interest of consistency, choose to report a fund as a major fund even if it does not meet the percentage criteria.

[GASBIG 2015-1, Q7.55.3, as amended by GASBS XX, ¶123]

.729-7 Q—Can an internal service fund that the government believes is particularly important to users be reported in a separate column like a major fund?

A—No. Governments should not include internal service fund data in the major fund calculation. The intent of the requirements in this section is that the basic statements should provide an overview of the internal service funds' balances and activity. Details of individual internal service funds may be provided in combining statements. Paragraph .173171~~.173171~~ of this section states that the combined totals for all internal service funds should be reported in separate columns on the face of the proprietary fund financial statements to the right of the total enterprise funds column.

[GASBIG 2015-1, Q7.55.4]

.729-8 Q—Can a fiduciary fund that the government believes is particularly important to users be reported in a separate column like a major fund?

A—No. Fiduciary fund data should not be displayed separately as major funds. Paragraph .2007197~~.2007197~~ of this section requires a separate column to be presented for each type of fiduciary fund (pension [and other employee benefit] trust funds, investment trust funds, private-purpose trust funds, and custodial funds), and further addresses additional disclosure requirements for individual defined benefit pension plans and postemployment healthcare plans. In addition, similar separate disclosure requirements for each individual investment trust fund is required by paragraph .137 of Section I50. Governments may present combining statements for the fiduciary fund types as supplementary information if they want to provide financial statements for individual funds.

[GASBIG 2015-1, Q7.55.5, as amended by GASBS 84, ¶14–¶18]

.729-9 Q—Are interfund balances and activity required to be eliminated from the nonmajor funds column?

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A—No. Interfund transactions and balances may be, but are not required to be, eliminated when nonmajor funds are combined.

[GASBIG 2015-1, Q7.55.6]

.729-10 Q—A government that prepares comparative financial statements is required to report two individual funds as major funds in the current year that were included in the nonmajor funds aggregation in the prior year. Should the major/nonmajor fund presentation from the prior year be restated so that the nonmajor fund ending fund balances reported in the prior year agree with the beginning fund balances presented for the current year?

A—No. The statements for the prior year should present the major/nonmajor fund detail as it resulted from the application of the major fund criteria at that time. Even though the beginning fund balances for the nonmajor funds will not agree with the ending balances presented in the prior year, the fund balances for the total governmental funds are not affected by the change in major funds. The government should consider disclosing an explanation of the difference in the notes.

[GASBIG 2015-1, Q7.55.7]

.729-11 Q—A city has a component unit that meets the criteria for blending and is included with its special resources revenue funds. Do the major fund reporting requirements apply to blended component units?

A—Yes. The concept of blending is based on the notion that certain component units are so closely related to the primary government that they are, in substance, the same as the primary government. As stated in paragraph .11144 of Section 2600 ~~this section~~, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. Therefore, if a component unit is blended into the reporting entity's financial statements as a special resources revenue fund, for example, it would be evaluated against the major fund criteria with the reporting entity's other governmental funds.

[GASBIG 2015-1, Q7.56.1, as amended by GASBS XX, ¶28]

.729-12 Q—Paragraph .159a of this section states that governments should apply the 10 percent major funds criterion to all funds of that category or type. When should “category” be used and when should “type” be used?

A—The major fund reporting requirement applies to all funds in the governmental category; thus, the 10 percent criterion should be applied to the governmental funds *category*. The major fund reporting requirements apply to

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enterprise funds but do not apply to internal service funds; thus, the 10 percent criterion should only be applied to the enterprise fund *type*, rather than the proprietary fund category. Exercise 2 in nonauthoritative paragraph .907 of this section illustrates the application of the major fund criteria.

[GASBIG 2015-1, Q7.56.2]

.729-13 Q—If an individual governmental or enterprise fund meets the initial 10 percent criterion for one element (total assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues/inflows of short-term financial resources, or expenses/outflows of short-term financial resources-expenditures), and meets the 5 percent benchmark for a *different* element, is that fund required to be presented as a major fund?

A—No. An individual governmental or enterprise fund is required to be reported as a major fund if it passes *both* the 10 percent *and* 5 percent tests for the same element. The criteria in paragraphs .160a-159a and .160b-159b of this section provide for a two-step test, rather than two separate tests.

[GASBIG 2015-1, Q7.56.3, as amended by GASBS XX ¶22 and ¶23]

.729-14 Q—In applying the major fund criteria to enterprise funds, should the government consider both operating and nonoperating revenues and expenses?

A—Yes. The major fund determination is based on total fund revenues and expenses, which include both operating and nonoperating categories. (See Question .729-20 in this section.)

[GASBIG 2015-1, Q7.56.4]

.729-15 Q—For determining major governmental funds, are inflows of resources ~~other financing sources~~ and outflows of resources from noncurrent activities ~~uses~~ included in the calculations?

A—Yes.

~~A—No.~~ The major fund criteria are set forth in paragraph .160-159 of this section. Inflows of short-term financial resources ~~Revenues do not include inflows of resources from noncurrent activities~~ other financing sources, and outflows of short-term financial resources ~~expenditures do not include outflows of resources from noncurrent activities~~ other financing uses.

[GASBIG 2015-1, Q7.56.5, as amended by GASBS XX, ¶22, ¶23, and ¶27]

.729-16 Q—Can the measurement focus and budgetary basis of accounting used for a government's budget be used to determine major funds?

~~A—No.~~

A—No. The measurement focus and basis of accounting used for a

government's budget~~The budgetary basis~~ might be useful in making an initial assessment, but ultimately, the major fund calculations should be done using GAAP bases of accounting.

~~bases of accounting.~~ Governmental funds should be evaluated based on modified accrual measurements applying the short-term financial resources measurement focus and accrual basis of accounting; enterprise funds should be tested using ~~accrual basis~~ measurements applying the economic resources measurement focus and accrual basis of accounting.

[GASBIG 2015-1, Q7.56.6, as amended by GASBS XX, ¶12 and fn10]

.729-17 Q—If a government uses only governmental funds and has no enterprise funds, should both of the major fund percentages (10 percent or 5 percent) be applied to the fund element totals?

A—No. Determining which funds should be reported as major funds normally is a two-step process. The first step should always be to compare individual fund assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, inflows of short-term financial resources, and outflows of short-term financial resources ~~revenues, and expenditures~~ against 10 percent of the combined element totals for the relevant fund type or category (enterprise or governmental funds). An individual fund is required to first exceed the 10 percent criterion before the second step, the 5 percent test, is undertaken. If an individual element does not surpass the 10 percent cutoff, the 5 percent comparison is not required. Therefore, the government in this question need not make the 5 percent calculation because the category totals do not change and any element that exceeds 10 percent will automatically also exceed 5 percent.

[GASBIG 2015-1, Q7.56.7, as amended by GASBS XX, ¶22 and ¶23]

.729-18 Q—A small municipality’s fund structure consists of its general fund, two special ~~resources revenue~~ funds, and a debt service fund. The general fund and the two special ~~resources revenue~~ funds qualify as major funds, leaving only the debt service fund as a nonmajor fund. The debt service fund will be displayed in a separate column. Do the major fund reporting requirements apply to it?

A—The major fund reporting requirements do not apply to the debt service fund in this example unless the government designates it as a major fund. To provide clarity, the government should clearly distinguish between major and nonmajor funds. One approach would use a “Major Funds” heading across the major fund columns and identify the debt service fund as “Nonmajor Fund.” For example:

Major Funds			Nonmajor Fund	Total
General Fund	Special ~~Revenue~~ Resources A	Special ~~Revenue~~ Resources B	Debt Service	

[GASBIG 2015-1, Q7.56.8, as amended by GASBS XX, ¶28]

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.729-19 Q—For determining major funds, should inflows of short-term financial resources/revenues be at gross, or net of discounts and allowances?

A—Major funds are determined based on inflows of short-term financial resources/revenues reported using the measurement focus and basis of accounting required by GAAP for governmental or enterprise funds, as appropriate. Therefore, because inflows of short-term financial resources/revenues are required to be reported net of discounts and allowances, the major fund determination should also be based on net, rather than gross, inflows of short-term financial resources/revenues.

[GASBIG 2015-1, Q7.56.9, as amended by GASBS XX, ¶122]

.729-20 Q—For determining major enterprise funds, should the analysis of revenues and expenses include nonoperating revenues and expenses and unusual or infrequent gains, losses, capital contributions, additions to permanent endowments, and special items?

A—Nonoperating revenues and expenses. Yes. These items, although required to be reported separately from operating other revenues and expenses, are indicators of the significance of the activities accounted for in individual funds and should be included in determining major enterprise funds. However, footnote 3129 of this section specifically excludes unusual or infrequent extraordinary items from the major fund determination.

[GASBIG 2015-1, Q7.56.10, as amended by GASBS XX, ¶910, ¶129, and ¶130]

.729-21 Q—Should the major fund test be done before or after year-end adjustments have been made?

A—Major funds should be determined based on the balances that are reported in the fund financial statements—after year-end adjustments have been made. However, as a preliminary determination, it may be useful to apply the major fund criteria before adjustments so that the funds that are likely to be deemed major are identified as soon as possible in the financial reporting process.

[GASBIG 2015-1, Q7.56.11]

.729-22 Q—Is the determination of major funds made before or after eliminating the effect of internal service fund activities in accordance with paragraph .154153 of this section?

A—Eliminating the effect of internal service fund activities as discussed in paragraph .154153 is an adjustment for the statement of activities and does not affect the fund financial statements. Therefore, major funds are determined without regard to the internal service funds' balances and the possible "look-back" adjustments.

[GASBIG 2015-1, Q7.56.12]

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.729-23 Q—For major fund determination, should total assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, inflows of short-term financial resources/revenues, or outflows of short-term financial resources/revenues, or expenditures/expenses include the effects of the items in the reconciliation of the fund statements to the government-wide statements?

A—No. The totals to be used for the major fund determination should be the unreconciled combined amounts. An individual fund's significance is measured by its status among *funds*; thus, comparisons against government-wide amounts would not be appropriate.

[GASBIG 2015-1, Q7.56.13, as amended by GASBS XX, ¶122 and ¶123]

.729-24 Q—Are interfund balances and ~~transactions~~ events required to be eliminated from the totals in the major fund test?

A—No. This section does not require any adjustments to the combined totals for assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, inflows of short-term financial resources/revenues, and outflows of short-term financial resources/expenditures/expenses. However, because the major fund criteria focus on assets plus deferred outflows of resources and liabilities plus deferred inflows of resources *separately*, significant interfund balances could influence the outcome of the major fund test. Interfund balances should not be eliminated, but if there are significant interfund receivables and payables, governments may adopt a policy (and use it consistently from year to year) to use a single “net” amount for each fund. Those changes would carry over to the respective total columns so that the governmental and enterprise fund totals would include the combined “net” amounts from the individual funds. Use of the “netting” process discussed in this answer should be limited to the determination of major funds. It should not be used for fund financial statement reporting purposes.

In the fund operating statements, transfers in and transfers out are ~~not~~ included in the major fund calculation (inflows of short-term financial resources/revenues and outflows of short-term financial resources/expenditures/ expenses) and do ~~not~~ affect the major funds determination, ~~because they are reported as other financing sources (uses)~~. Interfund services provided and used are not distinguished from other inflows of short-term financial resources/revenues or outflows of short-term financial resources/expenditures/ expenses.

[GASBIG 2015-1, Q7.56.14, as amended by GASBS XX, ¶122, ¶123 and ¶ 30]

.730 Required Reconciliation to Government-Wide Statements

.730-1 Q—How should the information in the reconciliations be assessed when determining materiality?

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A—Reconciliations explain the differences between results and balances in fund financial statements and their counterpart measurements in the government-wide statements. The reconciliations present details of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses that *should be* reported only in the government-wide statements, and certain inflows of short-term financial resources and outflows of short-term financial resources ~~financing sources and uses~~ that *should not be* reported in the government-wide statements. Consequently, the reconciliations are links to the government-wide statements and should be considered in conjunction with those statements when assessing materiality.

[GASBIG 2015-1, Q7.4.2, as amended by GASBS XX, ¶22 and ¶23]

.730-2 Q—Because the data presented in the financial statements should derive from the account balances in the accounting records, should the accounting records for governmental funds include the adjustments necessary to report governmental activities ~~applying~~ on the economic resources measurement focus and accrual basis of accounting in the government-wide financial statements?

A—No. The accounting records for governmental funds are generally established by fund and are maintained on a day-to-day basis using the cash, ~~modified accrual, or budgetary, or other~~ basis of accounting. The adjustments (or reconciliation items) necessary to prepare the government-wide statements are adjustments of the combined governmental funds, rather than each individual fund. *The funds are not converted to the economic resources measurement focus and accrual basis of accounting.* Governments would not allocate the adjustments to the individual funds, but instead would treat them as part of the process of converting fund-based statements to government-wide statements. Illustrative notes 4a and 5a in Exhibit 6 in nonauthoritative paragraph .905 of this section illustrate a “spreadsheet” approach to applying the reconciliation adjustments. Exercise 3 in nonauthoritative paragraph .907 of this section explains the reconciliation process.

[GASBIG 2015-1, Q7.57.1, as amended by GASBS XX, fn10]

.730-3 Q—Where should the reconciliation of the fund financial statements to the government-wide statements be located?

A—Paragraph ~~161160~~ of this section states that the reconciliation should be presented at the bottom of the fund financial statements or in an accompanying schedule. Alternatively, when space permits, the reconciliation can be presented on the same page as, but to the right of, the fund financial statements, rather than at the bottom of the page. The “accompanying schedule” should be considered a continuation of the fund financial statement; therefore, the schedule should be on the page immediately following the statement it supports. The “accompanying schedule” alternative was provided to avoid overcrowding the face of the

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statement and to give governments more space to explain the differences between fund-based and government-wide information. This approach is illustrated in Exhibit 5 in nonauthoritative paragraph .902, Exhibits 24 and 26 in nonauthoritative paragraph .903, and Exhibits 35 and 37 in nonauthoritative paragraph .904 of this section.

[GASBIG 2015-1, Q7.57.2]

.730-4 Q—Paragraph ~~.1611.60~~ of this section states that a detailed explanation should be provided in the notes if a reconciling item is so summarized that it obscures the nature of the individual elements of an adjustment. When is the disclosure required?

A—Generally, the disclosure is required if a reconciling item on the face of the statement (or in an accompanying schedule) is a combination of several similar balances or transactions, or is a net adjustment. Illustrative notes 4 and 5 in Exhibit 11 of nonauthoritative paragraph .902 of this section provide examples.

Note 4 illustrates a disclosure for a combined adjustment. The reconciliation includes a single amount to recognize long-term liabilities of the governmental activities in the statement of net position. The note discloses the relative amounts for bonds and notes payable, compensated absences, and claims and judgments. Note 5 illustrates a disclosure for a net adjustment. The reconciliation presents a single number representing the adjustment to remove the debt service (principal) transactions for the statement of activities. The note discloses the details of the proceeds and repayments.

[GASBIG 2015-1, Q7.57.3]

.730-5 Q—A city finance director wants to provide in-depth explanations of the differences between the city's fund financial statements and its government-wide statements. Where should those explanations be presented—on the face of the fund financial statements, in accompanying schedules, or in the notes to the financial statements?

A—For readability, the reconciling items presented on the face of the fund financial statements should be aggregated and the explanations of them should be brief. Lengthy explanations would not be appropriate on the face of the statements. If the reconciliation is presented on a separate page as a continuation of the financial statement, more space is certainly available to accommodate expanded explanations and, therefore, may be sufficient. Generally, the most suitable location for in-depth explanations of the items in the reconciliations would be in the notes to the financial statements. Exhibit 6 in nonauthoritative paragraph .905 of this section illustrates two

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possible approaches that governments might use in the notes to provide in-depth explanations of the items in the fund-to-government-wide-statement reconciliations.

[GASBIG 2015-1, Q7.57.4]

.731 Required Financial Statements—Governmental Funds

No questions assigned.

.732 Short-Term Financial Resources Balance Sheet

.732-1 Q—For governmental funds, ~~how~~ should long-term receivables ~~and related deferred inflows of resources~~ be recognized on the short-term financial resources balance sheet? ~~government wide and fund statements) is determined by the requirements of Section N50. Revenue that does not meet the “availability” criterion of the modified accrual basis of accounting is reported as a deferred inflow of resources in governmental funds.~~

A—Generally, no. Long-term receivables are items that arise from a long-term transaction and are recognized when payments become due. Payments due in future periods would not be recognized until those future periods. If a payment became due in the current period and was unpaid at period-end, it should be reported as an asset, subject to considerations regarding collectability.

[GASBIG 2015-1, Q7.62.1, as amended by GASBS XX, ¶12 and ¶19]

.732-2 Q—Can a deferred outflow of resources be combined with a deferred inflow of resources and reported as a net amount if the underlying transactions are similar? For example, can a deferred *outflow* of resources arising from an effective hedging arrangement be combined with a deferred *inflow* of resources arising from an effective hedging arrangement?

A—Paragraph .115 of this section requires presentation in separate sections. In the example in this question, unless there is a specific right of offset provision in the hedging arrangements, the deferred amounts should be classified separately. (See Questions .718-3 and .718-4 in Section P20 [for single and agent employers], Questions .732-1, .747-3, and .747-4 in Section P20 [for cost-sharing employers], Question .762-1 in Section P20 [for single and agent employers that have a special funding situation], and Question .776-1 in Section P20 [for governmental nonemployer contributing entities in a special funding situation] for discussion of the application of the provisions of Section P20 with regard to reporting deferred outflows of resources and deferred inflows of resources related to pensions.)

[GASBIG 2015-1, QZ.63.1]

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.733 Displaying fund balance classifications

See paragraph .710 in this section for questions discussing restricted net position and paragraphs .740–.754 in Section 1800.

.733-1 Q—Paragraph ~~.164163~~ of this section requires that amounts for the two components of nonspendable fund balance—interfund loans receivable~~those that are not in spendable form~~ and those that are contractually or legally required to be maintained intact—either be displayed on the face of the statement or disclosed in the notes. Are those components required to be separately classified as “interfund loans receivable~~resources not in spendable form~~” and “resources contractually and legally required to be maintained intact”?

A—No. It is not necessary to separately classify the components using the descriptions from paragraph ~~.164163~~ as long as amounts for the two components are discernable. For example, rather than presenting “Resources not in spendable form,” governments could instead label that amount as “Long-term portion of interfund loans~~inventories and prepaid amounts~~.”

[GASBIG 2015-1, QZ.54.6, as amended by GASBS XX, ¶12 and ¶26]

.733-2 Q—Is a government required to report an amount for all the fund balance classifications?

A—No. Governments should report amounts as committed or assigned only if they have procedures to constrain the use of resources that satisfy the criteria for those classifications. Some special-purpose governments, for example, may not have the ability to commit resources, and other governments may not have policies that are consistent with the assignment criteria. Other governments may have procedures that constitute assignment of resources but have not taken action to assign any resources. Accordingly, the classifications that a government reports and the policies that are in place will depend on the specific circumstances for the government.

[GASBIG 2015-1, QZ.54.7]

.733-3 Q—A government chooses to disclose in the notes, rather than display on the face of the financial statements, the fund balance classification details required by paragraph ~~.164163~~ of this section. Can the disclosure present aggregated amounts for total governmental funds?

A—No. The information disclosed in the notes should provide the same level of detail as would be displayed on the face of the financial statements. That

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is, the disclosure should provide information for the general fund, each major governmental fund, and the nonmajor funds in the aggregate.

[GASBIG 2015-1, QZ.54.61]

.733-4 Q—Paragraph ~~.164163~~ of this section establishes the requirements for the display or disclosure of the purposes for which fund balance amounts have been restricted, committed, or assigned. At what level of detail should those amounts be reported?

A—To provide for a consistent minimum level of detail within the governmental fund financial statements, it would be appropriate for governments to apply the same minimum level-of-detail consideration to both governmental fund outflows of resources ~~expenditures~~ and fund balances. Paragraph ~~.167166~~ of this section requires governmental fund outflows of resources ~~expenditures~~ to be classified at a minimum by “function.” Because paragraph ~~.164163~~ of this section refers to *purposes* but does not elaborate on what that term was intended to mean when determining the minimum level of detail that should be reported, the guidance in paragraph ~~.167166~~ of this section should be applied to determine the minimum level of detail for those reporting requirements. Therefore, governments may provide fund balance information at a more detailed level without also having to do so for outflows of resources ~~expenditures~~.

[GASBIG 2017-1, Q4.38, as amended by GASBS XX, ¶127]

.734 Required reconciliation

No questions assigned.

.735 Statement of Short-Term Financial Resource Flows ~~Revenues, Expenditures, and Changes in Fund Balances~~

.735-1 Q—In the statement of short-term financial resource flows ~~revenues, expenditures, and changes in fund balances~~, can a government report inflows of resources from noncurrent activities ~~other financing sources~~ with outflows of resources from current activities and outflows of resources from noncurrent activities ~~revenues and other financing uses~~ with outflows of resources from current activities ~~expenditures~~?

A—No. The presentation of the statement of short-term financial resource flows ~~revenues, expenditures, and changes in fund balances~~ is limited to one format; therefore, net flows from noncurrent activities ~~other financing sources and uses~~ should be reported after net flows from current activities, the “excess (deficiency) of revenues over expenditures,” as ~~illustrated presented~~ in paragraph ~~.166165~~ of this section.

[GASBIG 2015-1, Q7.64.1, as amended by GASBS XX, ¶11 and ¶127]

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.736 Classification of inflows of resources~~revenues~~ and outflows of resources~~expenditures~~

No questions assigned.

.737 Noncurrent activities~~Other financing sources and uses~~

.737-1 Q—Can debt *proceeds*—that is, the face amount of the debt net of premiums, discounts, and issuance costs—be reported as an inflows of resources from noncurrent activities~~other financing source~~?

A—No. Paragraph ~~.169~~¹⁶⁷ of this section requires the face amount of long-term debt, rather than the proceeds, to be reported as an inflow of resources from noncurrent activities~~other financing source~~. That paragraph also includes issuance premium or discount among the items that should be reported as inflows~~other financing sources~~ or outflows of resources from noncurrent activities~~uses~~, and paragraph ~~167~~¹⁶⁶ of this section states that debt. Debt issue costs paid out of debt proceeds, such as underwriter fees, should be reported as outflows of resources~~expenditures from current activities~~.

[GASBIG 2015-1, Q7.66.1, as amended by GASBS XX, ¶127]

.738 Unusual or infrequent~~Special and extraordinary~~ items

.738-1 Q—For unusual or infrequent~~special and extraordinary~~ items, at which level—government-wide or fund reporting—is “materiality” or “significance” determined?

A—Determining the materiality or significance of a transaction for purposes of separately reporting unusual or infrequent~~extraordinary and special~~ items is relative to the focus of the particular financial statement in question. Because the government-wide statement focuses on governmental and business-type *activities*, the transaction should be evaluated in relation to the appropriate type of activity—either governmental or business-type. The fund financial statements emphasize *major funds*; thus, a transaction should be evaluated in the context of the major fund, or nonmajor funds in the aggregate. (See Question ~~.738~~⁷³²-2 in this section about unusual or infrequent~~special and extraordinary~~ items and Questions .702-5, .729-1, .729-2, and .730-1 in this section and Questions .705-11 and .705-12 in Section 2600 about materiality in preparing financial statements.)

[GASBIG 2015-1, Q7.67.1, as amended by GASBS XX, ¶9 and ¶10]

.738-2 Q—Can a transaction be reported as an unusual~~a special~~ or infrequent~~extraordinary~~ item in the fund financial statements but not in the statement of activities?

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A—Yes. For example, assume that a government sold a significant governmental capital asset for a large amount, but at a negligible gain or loss. Significant proceeds from the sale would be reported in the governmental fund financial statements; however, because the gain or loss is insignificant, it

would not be reported as ~~an unusual or infrequent special~~ item in the statement of activities. On the other hand, the reverse situation—a transaction is an ~~unusual extraordinary or infrequent special~~ item in the statement of activities but not in the fund financial statements—also could occur. For example, a local government assumes the debt of another organization, either because it is required to as a guarantor, or because it chooses to under a “moral” obligation. Because this debt arises from a long-term transaction, the debt would be recognized as payments become due. There ~~has been no flow of financial resources; thus, there is no unusual extraordinary or infrequent special~~ item required to be reported in the statement of short-term financial resource flows ~~revenues, expenditures, and changes in fund balances~~. In the statement of activities, however, the event results in a change in net position and would be reported.

[GASBIG 2015-1, Q7.67.2, as amended by GASBS XX, ¶9, ¶11, and ¶23]

~~.738-3 Q—Do the additional display/disclosure requirements in paragraph .168 of this section (for significant transactions or other events that are either unusual or infrequent but are not within the control of management) for governmental funds also apply to proprietary funds?~~

~~A—The display/disclosure requirements in paragraph .168 apply only to governmental fund reporting. Because proprietary funds are subject to the requirements of paragraphs .143–.149, .191, and ¶23.192 of this section, paragraph .168 does not refer to proprietary funds. (See Question .721-1 in this section about *unusual and infrequent*.)~~

[GASBIG 2015-1, Q7.72.6] superseded by GASBS XX, ¶10

.739 Required reconciliation

~~.739-1 Q—How should the reassignment of a capital asset between an enterprise fund and governmental activities be reported?~~

A—If the assets reassigned from governmental activities to an enterprise fund are capital assets, the transaction is not “interfund” because it involves only one fund; consequently, the enterprise fund would report the receipt of the capital assets as a capital contribution from governmental activities (in the other nonoperating revenues and expenses ~~last~~ section of the statement of revenues, expenses, and changes in net position). In the reverse situation, in which a capital asset is reassigned from an enterprise fund to governmental activities, the disposal of the capital asset would be reported by the enterprise fund as a nonoperating expense. In either case, governmental funds would not report the event because capital assets are not recognized in financial statements presented applying the short-term ~~there has been no flow of current~~ financial resources measurement focus and accrual basis of accounting. In the statement of activities, the reassignment of the capital

asset between governmental activities and business-type activities would
be reported as a

transfer, requiring a reconciling item in the governmental funds' reconciliation because a
difference is created between the change in fund balances and the change in total net
position.

[GASBIG 2015-1, Q7.74.4, as amended by GASBS XX, ¶12 and ¶ 30]

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.740 Required Financial Statements—Proprietary Funds

No questions assigned.

.741 Separate Presentation of Internal Service Funds

.741-1 Q—Are combining statements for internal service funds required in the basic financial statements?

A—No. Combining statements for internal service funds are accorded the same status as combining statements for nonmajor funds—they should not be included in the basic financial statements, but may be presented as supplementary information. (See Question .729-3 in this section about combining statements in a CAFR.)

[GASBIG 2015-1, Q7.69.1]

.742 Statement of Net Position

.742-1 Q—Paragraph ~~176~~¹⁷⁴ of this section states that capital contributions should not be displayed as a separate component of net position. Can contributed capital be reported as a “subcomponent” of one of the required components of net position—for example, “net investment in capital assets”?

A—No. Contributed capital should not be separately identified, even as a “subcomponent” under a broader classification. As explained in paragraph 430 in the Basis for Conclusions of Statement 34, the focus of reporting in government should not be on a historical record of equity transactions, but on reporting net position available to finance future services. Governments that wish to continue to provide information about the extent to which a particular enterprise fund has received capital subsidies may do so in the notes to the financial statements.

[GASBIG 2015-1, Q7.70.1]

.742-2 Q—Can a deferred outflow of resources be combined with a deferred inflow of resources and reported as a net amount if the underlying transactions are similar? For example, can a deferred *outflow* of resources arising

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from an effective hedging arrangement be combined with a deferred *inflow* of resources arising from an effective hedging arrangement?

A—Paragraph ~~.116115~~ of this section requires presentation in separate sections. In the example in this question, unless there is a specific right of offset provision in the hedging arrangements, the deferred amounts should be classified separately. (See Questions .718-3 and .718-4 in Section P20 [for single and agent employers], Questions .732-1, .747-3, and .747-4 in Section P20 [for cost-sharing employers], Question .762-1 in Section P20 [for single and agent employers that have a special funding situation], and Question .776-1 in Section P20 [for governmental nonemployer contributing entities in a special funding situation] for discussion of the application of the provisions of Section P20 with regard to reporting deferred outflows of resources and deferred inflows of resources related to pensions.)

[GASBIG 2015-1, QZ.63.1]

.743 Statement of net position classification

No questions assigned.

.744 Current assets

.744-1 Q—A government has unspent proceeds from a bond issue that are restricted for use in the acquisition and construction of capital assets. At the end of the fiscal year, the government reports a current liability for construction costs incurred but not yet paid as of the end of the fiscal year. Is the government required to classify the portion of the restricted assets that will be used to liquidate this current liability as a current asset?

A—No. Paragraph ~~.179177~~ of this section requires that resources designated for disbursement in the acquisition or construction of noncurrent assets be excluded from current assets; however, footnote ~~3432~~ of this section provides that if such resources are considered to offset maturing debt that is properly reported as a current liability, those assets may be included within the current asset classification. At the end of the fiscal year, the government in this example already has acquired the noncurrent asset and recognized a current liability for the unpaid construction costs. Accordingly, the portion of the restricted assets may be, but is not required to be, classified as current.

[GASBIG 2016-1, Q4.60]

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.745 Classification and disclosure of allowances

.745-1 Q—How should a government report a change in the allowance for uncollectible accounts that relates to *loans receivable* and is therefore not related to a *revenue* account?

A—The change in an uncollectible loan allowance account should be reported as an expense—there is no related revenue account to reduce. A forgiven or uncollectible loan becomes, in substance, a gift, grant, or contribution, and is properly reported as an expense.

[GASBIG 2015-1, Q7.70.3]

.746 Reporting restrictions on asset use

See also paragraphs .708–.713 in this section about reporting net position, including paragraphs .710–.712 on net position restricted by enabling legislation.

.746-1 Q—If an enterprise fund accumulates assets in a restricted account that exceed the requirements of the restrictions placed on those resources, should the excess be reported as unrestricted in the statement of net position?

A—Yes. Assets in a restricted account that exceed the amounts required to be restricted would not be considered restricted for the statement of net position.

[GASBIG 2015-1, Q7.50.11]

.746-2 Q—Paragraph ~~.182179~~ of this section requires restricted assets to be reported separately in the proprietary fund statement of net position. How should restricted assets be reported under the *classified* approach?

A—Restricted assets should often be reported as noncurrent assets. Paragraph ~~.179177~~ of this section excludes from *current* assets “cash and claims to cash that are restricted as to withdrawal or use for other than current operations, that are designated for disbursement in the acquisition or construction of noncurrent assets, or that are segregated for the liquidation of long-term debts...” (footnote reference omitted). Restricted assets that will be used in current operations—certain grants and contract revenues, for example— should be reported as current assets. (See Questions .708-2 and .708-3 in this section.)

[GASBIG 2015-1, Q7.71.1]

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.747 *Current liabilities*

No questions assigned.

.748 *Classification of short-term obligations expected to be refinanced*

No questions assigned.

.749 *Classification*

No questions assigned.

.750 *Ability to Consummate the Refinancing*

No questions assigned.

.751 *Statement of Revenues, Expenses, and Changes in Fund Net Position*

.751-1 Q—A public university uses a functional reporting approach in its statement of revenues, expenses, and changes in fund net position. Is the institution required to apply the provisions in paragraphs ~~.133~~~~132~~ and ~~.134~~~~133~~ of this section for including depreciation in the direct expenses of its functions?

A—No. The institution may choose to allocate depreciation expense to the functional categories displayed in its statement of revenues, expenses, and changes in fund net position, but it is not required to do so. The requirements in paragraphs ~~.133~~~~132~~ and ~~.134~~~~133~~ to include depreciation in the direct expense of functions or programs apply to the statement of activities and are an essential part of the net (expense) revenue approach taken in that statement. Conversely, the statement of revenues, expenses, and changes in fund net position is not intended to provide net (expense) revenue information. The requirements for the statement of revenues, expense, and changes in fund net position are provided in paragraphs ~~.193–.197~~~~191–.195~~ of this section.

[GASBIG 2015-1, Q7.29.5, as amended by GASBS XX, ¶10 and ¶29–¶32]

.751-2 Q—Footnote ~~46~~~~44~~ of this section states that proprietary fund revenues should be reported net of discounts and allowances. Does that requirement relate only to sales discounts and sales allowances, or does it also entail an adjustment to revenue for uncollectible accounts?

A—Revenues in proprietary funds should be reported net of *all* related allowances—sales discounts and allowances and amounts pertaining to

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uncollectible accounts. That is, revenues should be reported net of the increase or decrease in the estimate of uncollectible accounts.

[GASBIG 2015-1, Q7.72.2]

.751-3 Q—In the statement of revenues, expenses, and changes in fund net position for proprietary funds, are governments required to report expenses by natural (object) classification?

A—No. A specific type or level of detail is not required. Paragraph .194192 of this section indicates only that the presentation of operating and nonoperating expenses should be “detailed.” Therefore, some governments may use natural classifications (for example, salaries and wages, employee benefits, supplies, utilities) and others may use functions. (A public university, for example, may use instruction, academic support, student services, and so forth.)

[GASBIG 2015-1, Q7.72.4, as amended by GASBS XX, ¶30]

.751-4 Q—A government has a business-type activity that it reports in a separate enterprise fund. The government received a grant meeting the definition of a subsidy from a private foundation and used the grant proceeds to purchase equipment for that activity. How should the grant be reported in the enterprise fund’s financial statements? How should it be reported in the government’s statement of activities?

A—In the enterprise fund, the answer depends on whether the grant is restricted for capital purposes. In the statement of activities, the answer depends on whether the grant was restricted to the specific activity. If the grant was not restricted for capital purposes but could have been used for any purpose within the activity, the government should report the grant in the noncapital subsidy classification ~~as nonoperating revenue~~ in the enterprise fund. On the other hand, if the grant was restricted to capital purposes, it would be reported in the other nonoperating revenue classification ~~as a capital contribution~~ in the enterprise fund’s statement of revenues, expenses, and changes in fund net position, as illustrated in paragraph .194192 of this section. If the grant was restricted to that specific activity (or function), the government would report it as program revenue (either operating or capital, as appropriate) in the statement of activities. If it was not restricted to that activity (or function), the grant would be reported as general revenue in the statement of activities.

[GASBIG 2015-1, Q7.72.8, as amended by GASBS XX, ¶30]

.751-5 Q—A special-purpose government that reports as a BTA transfers title to capital assets or makes capital grants to another governmental entity. How

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should these transactions be recorded on the statement of revenues, expenses, and changes in net position?

A—The government that transfers title to capital assets to another government is, in substance, making a capital grant to the receiving government. In the statement of revenues, expenses, and changes in net position, the reporting should be the same regardless of whether the resources are capital assets or financial resources restricted to the acquisition of capital assets. In either case, the government should ~~not~~ report the transaction as an other nonoperating~~operating~~ expense (unless the principal activity of the entity is making capital grants).

[GASBIG 2015-1, Q7.72.9, as amended by GASBS XX, ¶130]

.751-6 Q—Are revenues from tuition and fees for an academic term that encompasses two fiscal years required to be allocated between the two years?

A—Yes. These revenues should be recognized during the periods earned.

[GASBIG 2015-1, Q7.72.13]

.752 Definition of ~~Defining~~ operating revenues and expenses and description of nonoperating revenues and expenses

~~.752-1 Q—Paragraph .193 of this section links the determination of operating revenues and expenses to the classification of transactions in the statement of cash flows. However, paragraph .113 of Section 2450 describes cash flows from operating activities as generally those “that enter into the determination of operating income.” How can the guidance in Section 2450 be used to identify “operating” for proprietary fund operating statements?~~

~~A—The reference to the Section 2450 categories is intended to serve only as a guideline and should not be considered a requirement or limitation for defining operating revenues. Paragraphs .114 and .115 of that section identify specific cash inflows and outflows that should be included in the operating activities category. Generally, revenues and expenses related to those particular cash flows would likely also be regarded as “operating.” Paragraph .116 of Section 2450 discusses the limited instances when governments can classify certain investing activities as operating cash flows. Footnote 45 of this section indicates that governments can apply the concept from paragraph .116 of Section 2450 on a broader scale for identifying operating revenues and expenses. That is, if the nature of an enterprise is such~~

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~~that its “operating activities” would fall under a financing or investing cash flows category, the revenues and expenses may, nevertheless, be considered “operating.”~~

~~[GASBIG 2015-1, Q7.73.1]
[superseded by GASBS XX, ¶ 26]~~

~~.752-12~~ Q—Some BTAs that are component units of a state or local government receive annual operating subsidies or capital-related appropriations from their primary government. Should those payments from the primary government be reported as operating revenues, noncapital subsidies, or nonoperating revenues?

~~A—Appropriations meet the definition of a subsidy. Appropriations for noncapital-related purposes should be reported as noncapital subsidies. Appropriations for capital-related purposes should be reported as other nonoperating revenues and expenses.~~

~~A—Appropriations for capital-related purposes should be reported separately after nonoperating revenues and expenses. Paragraph .193 of this section indicates that governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported. It further suggests that Section 2450 be used as a consideration for determining how individual transactions would be categorized for operating/nonoperating purposes. Footnote 6 of Section 2450 specifically includes grants or subsidies provided to finance operating deficits in the noncapital financing category, rather than the operating activities category. Based on that guidance, annual operating grants and subsidies should be reported as *nonoperating* revenues. Paragraphs 50–52 in the Basis for Conclusions of Statement 35 discuss the issue from the perspective of public colleges and universities.~~

~~[GASBIG 2015-1, Q7.73.2, as amended by GASBS XX, ¶30–¶32]~~

~~.752-23~~ Q—For a public entity risk pool, can interest earnings on the pool’s investments be considered operating revenue because those earnings are a significant resource needed to pay claims?

~~A—Consistent with paragraph .195Footnote 45 of this section, provides that if “investing” is the entity’s principal ongoing operation, investment earnings could be reported as operating revenues. In the typical risk pool situation, however, the principal ongoing activity is not likely to be investing, but rather risk financing. In those situations, earnings from investments should be reported as nonoperating revenues.~~

~~[GASBIG 2015-1, Q7.73.3], as amended by GASBS XX, ¶31]~~

~~.752-4 Q—Can a state university establish a policy provided for in paragraph .193 of this section, to include state appropriations in operating revenues?~~

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~~A—No. The policy discussed in paragraph .193 should be consistent with the objective of distinguishing between operating and nonoperating revenues and expenses. That objective is to provide a reporting format that displays the extent to which an enterprise's operating expenses were covered by revenues generated by its principal ongoing operations. State appropriations are not generated by an institution, but instead are provided to the institution to help cover the net operating expense. Paragraph 52 in the Basis for Conclusions of Statement 35 discusses the deliberations regarding reporting state appropriations.~~

~~[GASBIG 2015-1, Q7.73.4]~~

superseded by GASBS XX, ¶131

~~.752-35~~ Q—Can investment income on endowments ever be reported as operating income?

A—Paragraph .125 of Section 2450 indicates that interest income is defined as investing activities and should be reported as such in the statement of cash flows. Paragraph .113 of that section indicates that operating activities include transactions that are *not* defined as capital and related financing, noncapital financing, or investing activities. Therefore, unless an organization's principal activity is investing, income earned from investments or endowments should be reported as nonoperating revenue. (See also Question .752-3 in this section.)

[GASBIG 2015-1, Q7.73.5]

.753 Definition of subsidies

No questions assigned.

.753.754 Reporting capital contributions and additions to permanent and term endowments

See also Question .704-2 in Section 1300 for a discussion of reporting of permanent endowments by special-purpose governments engaged only in business-type activities.

~~.754~~⁷⁵³-1 Q—Should capital contributions from joint venture participants who have an equity interest ("owners") be reported in the joint venture's statement of revenues, expenses, and changes in net position, or are those transactions exceptions that can be reported as direct additions to net position?

A—There are no exceptions to the requirement in paragraph ~~.197~~¹⁹⁴ of this section. It states that all proprietary fund revenues, including capital contributions and additions to permanent and term endowments, should be reported in the statement of revenues, expenses, and changes in fund net position.

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Contributions to a governmental joint venture from its participant-owners are included (as capital contributions) in the “all-inclusive” reporting requirements.

[GASBIG 2015-1, Q7.74.1]

~~.754753-2~~ Q—If, as discussed in Question ~~.754753-1~~ in this section, contributions from joint venture participants are reported in the joint venture’s statement of revenues, expenses, and changes in net position, rather than as direct additions to net position, does that increase the “earnings” to be distributed to the participants or adjusted to equity interests?

A—No. The distribution of earnings to the participants (a nonoperating expense) and the calculation of equity interests should not be affected by the manner in which additional paid-in capital (and payments to the participantowners) is *reported* in a joint venture’s financial statement. Example 3 in nonauthoritative paragraph .901 of Section J50, “Accounting for Participation in Joint Ventures and Jointly Governed Organizations,” discusses a joint venture example and illustrates the calculation of the joint venture’s net position and the equity interest of a participant. The calculations illustrated in that example are the same regardless of whether payments to/from the “owners” are reported in the operating statement as changes in net position (under this section) or as direct additions to net position.

[GASBIG 2015-1, Q7.74.2]

~~.754753-3~~ Q—Is it appropriate to report investment income restricted to increase permanent or term endowments as “additions to permanent or term endowments”?

A—No. Income from permanent or term endowments should be recorded as nonoperating revenue, if investing is not the principal activity of the entity. Contributions to permanent or term endowments should be reported in the statement of revenues, expenses, and changes in net position as other ~~a separate item after~~ nonoperating revenues and expenses.

[GASBIG 2015-1, Q7.74.3, as amended by GASBS XX, ¶30 and ¶31]

~~.754753-4~~ Q—How should the reassignment of a capital asset between an enterprise fund and governmental activities be reported?

A—If the assets reassigned from governmental activities to an enterprise fund are capital assets, the transaction is not “interfund” because it involves only one fund; consequently, the enterprise fund would report the receipt of the capital assets as a capital contribution from governmental activities

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(in the ~~other nonoperating revenues and expenses~~ last section of the statement of revenues, expenses, and changes in net position). In the reverse situation, in which a capital asset is reassigned from an enterprise fund to governmental activities, the disposal of the capital asset would be reported by the enterprise fund as a nonoperating expense. In either case, governmental funds would not report the event because capital assets are not recognized in financial statements presented applying the short-term ~~there has been no flow of current~~ financial resources measurement focus and accrual basis of accounting. In the statement of activities, the reassignment of the capital asset between governmental activities and business-type activities would be reported as a transfer, requiring a reconciling item in the governmental funds' reconciliation because a difference is created between the change in fund balances and the change in total net position.

[GASBIG 2015-1, Q7.74.4, as amended by GASBS XX, ¶12 and ¶30]

.754.755 Required reconciliations

.755 754-1 Q—Under what circumstances would a reconciliation between enterprise funds and business-type activities be required?

A—Generally, only allocations or reclassifications would create a difference between total enterprise funds and business-type activities. A difference would arise when enterprise funds are the predominant or only participants in an internal service fund. Paragraph ~~.157~~.156 of this section requires the internal service fund balances to be combined with the enterprise funds in the business-type activities column of the statement of net position. Similarly, if a “look-back” adjustment is needed to eliminate the effect of internal service fund activity (see paragraph ~~.154~~.153 of this section and paragraph 314 of the Basis for Conclusions of Statement 34) involving enterprise fund participants, the enterprise funds' operating expenses would be adjusted for the statement of activities. (See Exhibits 6 and 7 in nonauthoritative paragraph .902 of this section.) Another difference would occur when, as discussed in Questions .706-5 and .706-6 in this section, a government chooses to report activities accounted for in enterprise funds as governmental activities (or vice versa) in the government-wide statements. (See Question .715-4 in this section about allocating indirect expenses to business-type activities.) Exhibits 3B and 3C in nonauthoritative paragraph .907 of this section illustrate the details of a reconciliation between enterprise fund financial statements and government-wide statements when internal service funds' results and balances are allocated to business-type activities.

[GASBIG 2015-1, Q7.75.1]

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.755.756 Statement of Cash Flows

See also paragraphs .701–.714 in Section 2450.

.756.755-1 Q—Should a proprietary fund that has no operating income or loss present a statement of cash flows?

A—Yes. A statement of cash flows should be presented for all proprietary funds even if operating income is zero. Transactions other than those resulting in operating income create cash flows that should be presented in the statement of cash flows. If there is no operating income or loss for the period, the reconciliation of operating income to net cash flow from operating activities would begin with zero. Adjustments and reconciling items should be presented as additions to and deductions from zero to arrive at the amount of net cash flow from operating activities.

[GASBIG 2015-1, Q2.7.3]

.756.757 Required Financial Statements—Fiduciary Funds (including Fiduciary Component Units)

.757.756-1 Q—How should pension and other postemployment benefits (OPEB) plan financial statements be presented in an employer’s financial report?

A—Paragraph ~~.2011.97~~ and footnote ~~48.47~~ of this section clarify how the plan financial statements required by Section Pe5 or Section Po50, as applicable, should be presented when pension or OPEB plans that are administered through trusts (or equivalent arrangements) that meet specified criteria are reported as fiduciary funds in the employer’s financial report. Fiduciary fund financial statements (like those required by Section Pe5 or Section Po50) should be presented for each type of fund. If separate financial statements complying with Section Pe5 or Section Po50, as applicable, exist for each plan, the employer’s report should refer readers to them; if not, the employer should include financial statements for each plan in the notes to its financial statements.

[GASBIG 2016-1, Q4.61, as amended by GASBS 84, ¶14–¶18]

.757.756-2 Q—A county treasurer is the ex-officio treasurer of school districts within the county. The school districts are not component units of the county. On behalf of a school district within the county, the treasurer purchases and holds a certificate of deposit in a trust in which the assets are (a) dedicated to providing investment return benefits to the school district, in accordance with the benefit terms, and (b) legally protected from the creditors of the county. Within the county’s financial statements, should this investment be reported in an investment trust fund?

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A—Yes. A specific investment held for the school district meets the definition of an individual investment account that should be reported by the county as an investment trust fund in accordance with paragraph .113 of Section 1300. The amounts reported in the investment trust fund should not be reported in other fiduciary funds. In other words, the fiduciary fund that reports any other resources held for the school district should not include an asset for the district's position in the investment trust fund.

[GASBIG 2019-2, Q4.39]

~~.757756~~-3 Q—Does this section require disclosure of the financial statements of external investment pools in the notes to the sponsoring government's financial statements?

A—Paragraph ~~.200197~~ of this section states that financial statements for individual pension plans and postemployment healthcare plans should be presented in the notes to the financial statements of the primary government if separate GAAP financial reports have not been issued. The notes at the bottom of the illustrative statement of fiduciary net position and statement of changes in fiduciary net position (Exhibits 9 and 10) in nonauthoritative paragraph .902 of this section indicate that the notes should also disclose the financial statements of individual external investment pools. The requirement to disclose condensed financial statements of individual external investment pools, if separate financial statements are not issued, is not a provision of this section but rather comes from paragraph .137c of Section I50.

[GASBIG 2015-1, Q7.77.2]

~~.757756~~-4 Q—Are the financial reporting formats required for fiduciary funds similar enough to pension trust funds that they can be reported on the same statement?

A—Yes. Paragraph .136 of Section I50 requires only that a statement of fiduciary net position and a statement of changes in fiduciary net position be presented for investment trust funds in the financial statements of the sponsoring government. The only other display requirement is that the difference between the external pool's assets, deferred outflows of resources, liabilities, and deferred inflows of resources be captioned "net position held for pool participants." Those requirements are easily accommodated in the pension trust fund display requirements set forth in Section Pe5. To accommodate the requirements for additional details of investments and investment income, governments also should display that level of detail for all other

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fiduciary funds or clearly note on the face of the financial statement that summarized amounts exclude the more detailed pension data that is displayed.

[GASBIG 2016-1, Q4.62, as amended by GASBS 84, ¶18]

~~.757-56-5~~ Q—Paragraph .115 of Section 1300 states that “the external portion of investment pools that are not held in a trust that meets the criteria in paragraph .134c(1) of [that] section should be reported in a separate *external investment pool fund* column, under the custodial funds classification.” Is it sufficient to display that separate column in a combining statement for custodial funds, if one is presented?

A—No. The requirement in paragraph .115 of Section 1300 applies to the government’s basic financial statements and cannot be satisfied by only including the separate column in supplementary information.

[GASBIG 2019-2, Q4.44]

~~.757-56-6~~ Q—A city is the trustee and custodian for the cash collected from fees charged by the local cemetery association for future maintenance of the cemetery. The association is a not-for-profit association and is not a component unit of the city. The trust has its own board. The activity is administered through a cemetery care trust in which the assets are (a) dedicated to providing cemetery plot maintenance to individuals who have paid the fees for such maintenance, in accordance with the benefit terms, and (b) legally protected from the creditors of the government. The activity meets the criteria in Section 1300 to be a fiduciary activity. Should the cemetery care fund be reported in a private-purpose trust fund?

A—Yes. The activity should be reported in a private-purpose trust fund because the criteria in paragraph .114 of Section 1300 are met. (See also Question .716-10 in Section 1300.)

[GASBIG 2019-2, Q4.41]

~~.757-56-7~~ Q—Assume the same facts as in Question ~~.757-56-6~~, except that the activity is *not* administered through a trust that meets the criteria in paragraph .134c(1) of Section 1300. Should the cemetery care fund be reported in a custodial fund?

A—Yes. In accordance with paragraph .115 of Section 1300, because the activity is not administered through a trust that meets the criteria in

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paragraph .134c(1) of that section, the activity should be reported in a custodial fund. (See also Question .716-10 in Section 1300.)

[GASBIG 2019-2, Q4.42]

~~.757756~~-8 Q—Paragraph ~~.200197~~ of this section does not require a separate column for fiduciary component units. How should those component units be displayed in the fiduciary fund financial statements?

A—Each fiduciary component unit should be reported within the appropriate fiduciary funds, rather than aggregated in a separate fiduciary component units column.

[GASBIG 2015-1, Q7.77.4, as amended by GASBS 84, ¶5 and ¶14–¶18]

~~.757756~~-9 Q—A PERS administers two defined benefit pension plans, a defined contribution plan, an active employee healthcare plan, and a postemployment healthcare plan as fiduciary activities. When a PERS administers more than one defined benefit pension plan, Section Sp20 requires the PERS to present combining financial statements for all plans administered and to present separate required schedules for each plan. Is the PERS also required to present *combined* financial statements for all these plans?

A—No. Similar to Sections Pe5 and Po50, Section Sp20 focuses on separate reporting of each plan in the financial report of a PERS. Section Sp20 characterizes a PERS as a special-purpose government engaged in fiduciary activities. For that reason, the basic financial statements that a PERS should present are those that would be required for fiduciary funds—a statement of fiduciary net position and a statement of changes in fiduciary net position. (The basic financial statements of a PERS do not include government-wide financial statements.) Further, a PERS that administers more than one defined benefit pension plan that is administered through a trust (or equivalent arrangement) that meets the criteria in paragraph .101 of Section Pe5 or postemployment healthcare plan that is administered through a trust (or equivalent arrangement) that meets the criteria in paragraph .101 of Section Po50 should meet the requirements of paragraph .117 of Section Sp20 by either presenting a separate column for each plan administered on the statement of fiduciary net position and the statement of changes in fiduciary net position or presenting combining statements for those plans as part of the basic financial statements.

[GASBIG 2016-1, Q4.63, as amended by GASBS 84, ¶6, ¶7, ¶10, and ¶14]

~~.757756~~-10 Q—A PERS that is a fiduciary component unit of a local government has two fiduciary component units of its own—one is accounted for in a pension

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trust fund and one is accounted for in an other employee benefit trust fund. How should the PERS and its component units be included in the fiduciary fund financial statements of the local government?

A—In accordance with paragraph ~~.217~~~~214~~ of this section, the financial statements of the PERS, its pension trust fund component unit, and its other employee benefit trust fund component unit should be combined and reported within the pension (and other employee benefit) trust fund column in the local government's fiduciary fund basic financial statements.

[GASBIG 2019-2, Q4.51]

~~.757~~~~756~~-11 Q—A public university that reports as a stand-alone business-type activity uses a single column for presenting its financial statements. The university has fiduciary component units that meet the criteria in paragraphs .129 and .131 of Section 1300 and is engaged in other fiduciary activities. Is the university required to include fiduciary fund financial statements as part of its basic financial statements?

A—Yes. The university is required to include fiduciary fund financial statements as part of its basic financial statements. As indicated in paragraph .102 of this section, government-wide financial statements that include a single column presentation for a business-type activity should not include fiduciary activities. The university can, however, choose to apply the exception in paragraph ~~.175~~~~173~~ of this section to the extent that fiduciary assets are normally expected to be held for three months or less.

[GASBIG 2019-2, Q4.52]

~~.757~~~~758~~ **Statement of Fiduciary NetPosition**

~~.758~~~~757~~-1 Q—A city's parks department sponsors a youth soccer program from April through July each year. Registration is free, but each participant is encouraged to provide resources to the uniforms and equipment fund. Uniforms and equipment are acquired by volunteer coaches who are not employees of the city. The city has determined that the resources meet the criteria in Section 1300 to be accounted for in a custodial fund. Should the city recognize a liability in the custodial fund for those expected purchases when the resources are received at registration?

A—No. Liabilities should be recognized when the uniforms and equipment are acquired by the coaches. At that point, the city is compelled to disburse

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the resources. The city will report net position in the fund for the difference between the resources held and the liabilities incurred.

[GASBIG 2019-2, Q4.47]

.758757-2 Q—Can a deferred outflow of resources be combined with a deferred inflow of resources and reported as a net amount if the underlying transactions are similar? For example, can a deferred *outflow* of resources arising from an effective hedging arrangement be combined with a deferred *inflow* of resources arising from an effective hedging arrangement?

A—Paragraph **.116115** of this section requires presentation in separate sections. In the example in this question, unless there is a specific right of offset provision in the hedging arrangements, the deferred amounts should be classified separately. (See Questions .718-3 and .718-4 in Section P20 [for single and agent employers], Questions .732-1, .747-3, and .747-4 in Section P20 [for cost-sharing employers], Question .762-1 in Section P20 [for single and agent employers that have a special funding situation], and Question .776-1 in Section P20 [for governmental nonemployer contributing entities in a special funding situation] for discussion of the application of the provisions of Section P20 with regard to reporting deferred outflows of resources and deferred inflows of resources related to pensions.)

[GASBIG 2015-1, QZ.63.1]

.758759 ***Statement of Changes in Fiduciary Net Position***

.759758-1 Q—A city's parks and recreation department offers a summer baseball program. This year, the parents organized fundraisers to accumulate resources for the players to attend a tournament. The tournament will take place two months after the baseball program begins. The department is holding the resources raised by the parents and when the fundraising is complete, it will distribute all of the resources to one parent appointed by all of the parents in the group to serve as the parent administrator. The parent administrator will disburse the resources equally to the parents of each player. The parents have complete discretion over how the funds will be spent. How should the additions and deductions be reported by the city in its statement of changes in fiduciary net position?

A—Because the resources raised are expected to be held by the city's parks and recreation department for three months or less, the city may report a single aggregated total for additions and a single aggregated total for deductions for this activity in the custodial funds column in the statement of changes in fiduciary net position, as discussed in paragraph **.203200** of this section. The descriptions of the aggregated totals should indicate the nature of

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the resource flows. For example, in this scenario, the additions might be described as “baseball fundraising collections,” and the deductions might be described as “baseball fundraising distributions.” (See also Question .758-2.)

[GASBIG 2019-2, Q4.48]

~~.759-2~~ **.759-2** Q—How should a government report multiple activities that meet the description of a custodial fund in paragraph .115 of Section 1300 if it is expecting to hold the assets in each of those custodial funds for three months or less?

A—Because the assets in multiple custodial funds are expected to be held by the government for three months or less, the government may report, if significant, a single aggregated total for additions and a single aggregated total for deductions for *each* activity in the custodial funds column in the statement of changes in fiduciary net position. The description of each aggregated total should indicate the nature of the resource flows of the associated custodial fund activity. The aggregated totals for individual activities that are not significant can be combined; the additions might be described as “other custodial fund collections,” and the deductions might be described as “other custodial disbursements.” (See also Question .758-1.)

[GASBIG 2019-2, Q4.49]

~~.759-3~~ **.759-3** Q—The city is holding resources for a legally separate organization that is not a component unit. The city has determined that the activity meets the criteria in Section 1300 to be accounted for in a custodial fund. Payments from the fund sometimes are made in less than three-month intervals. Can the city report aggregated totals for additions and deductions as provided for in paragraph ~~.203-200~~ of this section?

A—No. Even though outflows from the fund may sometimes occur in less than three-month intervals, the inflows into the fund are normally held by the city for longer than three months.

[GASBIG 2019-2, Q4.50]

~~.759.760~~ **Reporting Custodial Funds**

.760

~~.759-1~~ **.759-1** Q—A county tax collector collects property taxes for all taxing bodies in the county, including the tax-levying funds of the county. The county uses a custodial fund as a distribution mechanism for the taxes. At year-end, the collector is holding \$3,450,000 in the tax distribution account. Of that total, \$750,000 will be distributed to the county funds, and the remaining \$2,700,000 represents

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taxes collected for the other taxing bodies in the county. How should the county report the portion collected and on hand for the county's purposes?

A—In the county's financial statements, the tax collector's custodial fund would report only the \$2,700,000 in cash with an equal amount as a liability to other taxing bodies. The \$750,000 collected and on hand for the county's funds would be reported as cash (rather than taxes receivable or due from custodial funds) in the appropriate funds. In essence, the collector has a "pooled" cash account, similar to an internal investment pool. The allocation of cash balances to the county funds is consistent with the requirement in paragraph .132 of Section 150 that requires the "equity position" of each fund in an internal investment pool to be reported as assets in those funds.

[GASBIG 2015-1, Q7.81.1, as amended by GASBS 84, ¶14 and ¶18]

.760759-2 Q—A government uses a clearing account to accumulate resources from withholding of employee payroll deductions and accrued employer payroll taxes that will be submitted to the appropriate taxing bodies when due. Should the government report the clearing account in its fiduciary fund financial statements?

A—No. Although the government has control of the assets because it has custody of the cash withheld, the unremitted amounts in the clearing account are a liability of the government. When the deductions are withheld from an employee's pay, the amounts withheld and accrued by the employer become a present obligation to sacrifice resources that the government has no discretion to avoid and, therefore, are liabilities of the government. As a result, the government is holding the amounts for its own benefit and the criteria in paragraph .134c of Section 1300 are not met.

[GASBIG 2019-2, Q4.15]

.760759-3 Q—A city is the trustee and custodian for the cash collected from fees charged by the local cemetery association for future maintenance of the cemetery. The association is a not-for-profit association and is not a component unit of the city. The trust has its own board. The activity is administered through a cemetery care trust in which the assets are (a) dedicated to providing cemetery plot maintenance to individuals who have paid the fees for such maintenance, in accordance with the benefit terms, and (b) legally protected from the creditors of the government. The activity meets the criteria in Section 1300 to be a fiduciary activity. Should the cemetery care fund be reported in a private-purpose trust fund?

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A—Yes. The activity should be reported in a private-purpose trust fund because the criteria in paragraph .114 of Section 1300 are met. (See also Question .716-10 in Section 1300.)

[GASBIG 2019-2, Q4.41]

~~.760759~~-4 Q—Assume the same facts as in Question ~~.760759~~-3, except that the activity is *not* administered through a trust that meets the criteria in paragraph .134c(1) of Section 1300. Should the cemetery care fund be reported in a custodial fund?

A—Yes. In accordance with paragraph .115 of Section 1300, because the activity is not administered through a trust that meets the criteria in paragraph .134c(1) of that section, the activity should be reported in a custodial fund. (See also Question .716-10 in Section 1300.)

[GASBIG 2019-2, Q4.42]

~~.760759~~-5 Q—A state administers two investment pools, one for local governments and one for school districts. Neither of the pools' assets is held in a trust that meets the criteria in paragraph .134c(1) of Section 1300. As a result, the pools should be reported in the *state's fiduciary fund financial statements* as custodial funds. How would the two investment pools be reported in the custodial funds?

A—As required by paragraph .115 of Section 1300, the external portions of the two investment pools would be combined and reported in a single external investment pool fund column within the custodial funds classification in the fiduciary fund basic financial statements.

[GASBIG 2019-2, Q4.43]

~~.760759~~-6 Q—Paragraph .115 of Section 1300 states that “the external portion of investment pools that are not held in a trust that meets the criteria in paragraph .134c(1) of [that] section should be reported in a separate *external investment pool fund* column, under the custodial funds classification.” Is it sufficient to display that separate column in a combining statement for custodial funds, if one is presented?

A—No. The requirement in paragraph .115 of Section 1300 applies to the government's basic financial statements and cannot be satisfied by only including the separate column in supplementary information.

[GASBIG 2019-2, Q4.44]

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~~.760759-7~~ Q—A port authority (a stand-alone business-type activity) collects a leasehold excise tax levied by the state and the county from the businesses and individuals that rent buildings that are owned by the state or the county on the port authority's land. The amount subject to the excise tax is the monthly rent paid. The port authority is required to remit all of the taxes to the state's department of revenue, which then distributes the appropriate share to the county. The port authority normally remits the collected taxes quarterly to the state. The activity meets the criteria in Section 1300 to be a fiduciary activity (custodial fund assets) of the port. For purposes of determining whether the custodial fund assets are normally expected to be held for three months or less, how often and when should the port authority make the assessment?

A—Paragraph ~~.175173~~ of this section allows the port authority to assess whether custodial fund assets are normally expected to be held for three months or less upon receipt of the resources. The normal expected holding period for a specific type of recurring receipt can be established by past practice of the authority rather than making the assessment each time a resource is received. Even though, on occasion, the remittance may be late, if the amounts are normally expected to continue to be held for three months or less, the exception in paragraph ~~.175173~~ of this section can be applied.

[GASBIG 2019-2, Q4.45]

~~.760759-8~~ Q—A municipal water department, an enterprise fund of the city, bills its customers monthly. The bills include a checkbox that allows a customer to voluntarily add one dollar to the amount of the bill for the surrounding county's social services program. Those donated amounts will be distributed to local residents who qualify for assistance under the program guidelines. The water department maintains a separate cash account for the donations to the county and remits the balance in the account to the county for distribution when the account balance exceeds \$3,000. The water department has determined that the activity is a fiduciary activity. Is the city required to account for the donations to the county in a custodial fund, or would the city be allowed to exercise the exception in paragraph ~~.175173~~ of this section to recognize the cash and liability in the enterprise fund and report additions and deductions as cash inflows and cash outflows, respectively, in the operating activities category of its statement of cash flows?

A—The city should review the history of the account balance and remittances to the county to determine whether the resources normally have been held for three months or less to determine whether a custodial fund is required.

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If the resources are normally not held by the city for three months or less, the exception in paragraph ~~.1751-73~~ of this section is not applicable.

[GASBIG 2019-2. Q4.46]

~~.760.761~~ Comparative Financial Statements

No questions assigned.

~~.761.762~~ Basic Financial Statements—Notes to Financial Statements

No questions assigned.

~~.762.763~~ Required Supplementary Information Other Than Management's Discussion and Analysis

See paragraph .710 in Section 1400 for a discussion of RSI other than MD&A related to the modified approach for reporting infrastructure.

~~.763.764~~ Budgetary Comparison Schedules

~~.764.763-1~~ Q—Can budgetary data for a discretely presented component unit be presented in the reporting entity's budget-to-actual comparison in RSI ~~as RSI or in the basic financial statements?~~

A—No. Paragraph ~~.209.206~~ of this section clearly limits the comparison to the primary government's general fund and major special resources ~~revenue~~ funds with legally adopted annual budgets. Including data for discretely presented component units in the budgetary comparison schedule would be in conflict with the limitations of that requirement. Budgetary comparisons for discretely presented component units, however, can be presented as supplementary information.

[GASBIG 2015-1, Q4.36.1, as amended by GASBS XX, ¶28 and ¶34]

~~.764.763-2~~ Q—Activities of a legally separate component unit are included in the budget for the primary government's general fund. What effect should this have on the budgetary comparison?

A—The budgetary comparison should be consistent with the budget. Thus, the activities of a component unit in the primary government's budget should

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not be excluded from the budgetary comparison. Entity differences should be reconciled to actual amounts on a GAAP basis, based on the requirements included in Section 2400.

[GASBIG 2015-1, Q4.36.2]

.764763-3 Q—What is the minimum level at which budgetary compliance should be reported?

A—The minimum reporting level for budget-to-actual comparisons, which are required by paragraph ~~.209206~~ of this section for the general fund and major special ~~resources~~ ~~revenue~~ funds that have legally adopted annual budgets, is established in Section 2400. Paragraph .121 of that section requires ~~presentation~~ ~~disclosure~~ “at the level of budgetary control” (except in extreme cases when separate reports are required).

[GASBIG 2015-1, Q7.91.1, as amended by GASBS XX, ¶128 and ¶134]

.764763-4 Q—If a special ~~resources~~ ~~revenue~~ fund that has a legally adopted budget does not meet the percentage criteria in paragraphs ~~.160a159a~~ and ~~.160b159b~~ of this section but is nevertheless reported as a major fund because the government’s officials believe it is particularly important to financial statement users (for example, because of public interest or consistency), is a budgetary comparison schedule required for that “major” special ~~resources~~ ~~revenue~~ fund?

A—Yes. The extended use of major fund reporting as set forth at the end of paragraph ~~.160159~~ allows governments to report any (governmental or enterprise) fund as a major fund. If a fund is voluntarily reported as a major fund, all of the major fund reporting requirements (including budgetary comparison schedules, if applicable) should be met.

[GASBIG 2015-1, Q7.91.2, as amended by GASBS XX, ¶128]

.764763-5 Q—Should governments that issue the full financial section of a CAFR, including budgetary comparisons for debt service, capital projects, nonmajor special ~~resources~~ ~~revenue~~ funds, and other funds that have legally adopted budgets, apply the provisions of paragraphs ~~.209206~~ and ~~.210207~~ of this section to those additional comparisons?

A—This section establishes standards for the basic financial statements, MD&A, and certain RSI other than MD&A. It does not prescribe requirements for the data presented as supplementary information—combining and individual fund statements and statistical information, for example. Governments that present additional budgetary comparisons as supplementary information

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may choose to, but are not required to, present that information in accordance with the provisions of paragraphs .209206 and .210207.

[GASBIG 2015-1, Q7.91.3, as amended by GASBS XX, ¶28 and ¶34]

~~.764763~~ 6 Q—A local government has a fund that is included in its annual budget as a special resourcesrevenue fund. However, the fund is required to be reported as an enterprise fund, based on the criteria in paragraph .109 of Section 1300. The fund meets the major fund criteria. Should that fund be included in the RSI budget-to-actual comparison as a major *special resourcesrevenue* fund?

A—No. The RSI budget-to-actual comparison is based on the major special resourcesrevenue funds as presented in the fund financial statements. Although the fund is treated as a special resourcesrevenue fund for internal accounting purposes, it is required to be reported as an enterprise fund in the external financial statements. (~~See Question .763-14 in this section about perspective differences.~~)

[GASBIG 2015-1, Q7.91.4, as amended by GASBS XX, ¶28 and ¶34]

~~.764763~~ 7 Q—~~A government presents its budgetary comparison in a schedule as RSI.~~ Can a budget-to-actual comparison for a *nonmajor* special resourcesrevenue fund be included in ~~that the budgetary comparison~~ schedule?

A—No. By definition, the information presented in RSI is limited to that which is *required*. Paragraph .209206 of this section sets the scope of the budgetary comparison as the general fund and major special resourcesrevenue funds. Therefore, because the budgetary comparison schedule can only include major special resourcesrevenue funds that have legally adopted budgets, *any special resourcesrevenue fund presented is a major fund*, regardless of whether it otherwise would be required to be reported as a major fund pursuant to the percentage criteria in paragraph .160159 of this section. Thus, the consequence of presenting additional special resourcesrevenue funds in the budgetary comparison schedule is that those funds are subject to all major fund reporting requirements and are, therefore, not considered nonmajor.

[GASBIG 2015-1, Q7.91.5, as amended by GASBS XX, ¶28 and ¶34]

~~.764-8 Q—~~ ~~.763-8 Q—~~ ~~A government presents its budgetary comparison in a schedule as RSI.~~ Can budget-to-actual comparisons for capital projects and debt service funds be included in ~~that the budgetary comparison~~ schedule?

A—No. Paragraph .209206 of this section clearly limits the comparison to special resourcesrevenue funds with legally adopted annual budgets—specifically those that are deemed to be “major.” (See Question .764763-7 in this section.)

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Including capital projects funds and debt service funds in the budgetary comparison schedule would be in conflict with the limitations of that requirement.

[GASBIG 2015-1, Q7.91.6, as amended by GASBS XX, ¶28 and ¶34]

~~.764-9.763-9~~ Q—Can a government present some of its required budgetary comparison information (for the general fund, for example) in the basic statements (as provided for in footnote 51 of this section) and the remainder in schedules as RSI?

~~A—No. The required budgetary comparison information for the general fund and each major special revenue fund that has a legally adopted budget should be reported together.~~

~~[GASBIG 2015-1, Q7.91.7]
superseded by GASBS XX, ¶ 34~~

~~.763-10~~ Q—If a government chooses to present its required budgetary comparisons in the basic statements, where should they be located?

~~A—Budgetary comparison statements for governmental funds should be reported with the fund financial statements after the statement of revenues, expenditures, and changes in fund balances.~~

~~[GASBIG 2015-1, Q7.91.8]
. superseded by GASBS XX, ¶ 34~~

~~.763-11.764-9~~ Q—What format should governments use for presentation of the budgetary comparison?

~~A—Paragraph .210207 of this section states that governments may use the format, terminology, and classifications used in the underlying budget documents or those used in the governmental funds' statement of short-term financial resource flows, revenues, expenditures, and changes in fund balances. Both formats are allowed, and neither is preferred over the other. Examples using a budget document format are presented in Exhibits 1 and 2 in nonauthoritative paragraph .903 of Section 2400, and an example of the governmental statement of short-term financial resource flows, revenues, expenditures, and changes in fund balances format is presented in Exhibit 4 in that nonauthoritative paragraph.~~

[GASBIG 2015-1, Q7.91.9, as amended by GASBS XX, ¶11 and ¶27]

~~.764-10.763-12~~ Q—The requirement in paragraph .209206 of this section for reporting budgetary comparison schedules refers to “legally adopted annual budgets.” Are governments that budget on a biennial basis *exempt* from this requirement?

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A—No. The budgetary comparison reporting requirements also apply to governments with biennial budgets. Paragraph .112 of Section 2400 includes biennial budgets as an example of timing differences.

[GASBIG 2015-1, Q7.91.10, as amended by GASBS XX, ¶134]

~~.764-11763-13~~ Q—Budgeted ~~inflows of resources~~ revenue forecasts are provided by a state's legislative budget office for use in determining budgetary outflows of resources ~~expenditure~~ levels for all legislatively appropriated funds. Those estimated budgetary inflows of resources ~~revenues~~, however, are not contained in the appropriations bill and thus are not “legally adopted.” Should the state report those budgetary inflows of resources ~~revenue~~ estimates as *budgeted inflows of resources* ~~revenues~~ in the budget-to-actual comparison?

A—Yes. The estimated budgetary inflows of resources ~~revenues~~ should be included in the budgetary comparison as budgeted inflows of resources ~~revenues~~. Paragraph .209 ~~206~~ of this section requires that actual results be compared with amounts in the “appropriated budget.” Paragraph .108 of Section 2400, which is referenced in footnote 53 of this section, states that the appropriated budget is defined as “the budgetary outflows of resources ~~expenditure~~ authority created by the appropriation bills or ordinances which are signed into law and related estimated budgetary inflows of resources ~~revenues~~.” The reference to estimated budgetary inflows of resources ~~revenues~~ after the mention of the legal adoption of the appropriations bill implies that the budgetary inflows of resources ~~revenue~~ estimates need not be “legally adopted.”

[GASBIG 2015-1, Q7.91.11, as amended by GASBS XX, ¶127]

~~.763-14~~ Q—If a government has a perspective difference between its budgetary practices and ¶134 the GAAP financial reporting model, is it *required* to present its budgetary comparison as RSI?

A—Only in certain limited circumstances are governments *required* to present their budgetary comparisons as RSI. Paragraph .102 of Section 2400 stipulates that the basic statement option is not available to governments with perspective differences that are so significant that they *are not able* to present budgetary comparisons for the general and major special revenue funds. Most perspective differences, as discussed in paragraphs .113–.116 of Section 2400, do not render a government *unable* to present the required comparisons. However, as discussed in paragraph 8 in the Basis for Conclusions of Statement 41, some governments have budgetary structures that prevent them from associating the estimated revenues and appropriations from their legally adopted budget to the major revenue sources and functional expenditures that they report in their general fund and major special revenue funds.

[GASBIG 2015-1, Q7.91.12]
superseded by GASBS XX, ¶134

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~~.764-12763-15~~ Q—Paragraph ~~.209206~~ of this section states that a budgetary comparison is required for “the general fund and for each major special ~~resourcesrevenue~~ fund that has a legally adopted annual budget.” Does the *legally adopted* requirement apply to the general fund or only to the major special ~~resourcesrevenue~~ funds?

A—The *legally adopted* requirement applies to the general fund as well as the major special ~~resourcesrevenue~~ funds. For example, if a special-purpose government maintains a general fund (or its equivalent) but is not legally required to adopt or does not legally adopt a budget, a budgetary comparison schedule should not be presented ~~in the basic statements or as RSI~~. (See also Questions ~~.764763-7~~ and ~~.764763-8~~ in this section.)

[GASBIG 2015-1, Q7.91.13, as amended by GASBS XX, ¶28 and ¶34]

~~.764-13763-16~~ Q—Does *legally adopted* mean that a government is required by law to adopt a budget, or does it mean that the governing body officially adopts a budget that has legal standing?

A—*Legally adopted*, as used in paragraph ~~.209206~~ of this section, refers to the notion that the government has no legal authority to spend resources until the budget is adopted. The intent of the legally adopted reference is that the budget (or appropriation ordinance, etc.) provides legal authority to spend resources. A government may formally adopt an operating budget, but if they have the legal authority to spend resources without it, it does not constitute a legally adopted budget as contemplated in the standards.

[GASBIG 2015-1, Q7.91.14, as amended by GASBS XX, ¶34]

~~.764-14763-17~~ Q—Some governments begin a fiscal year using interim budgets that cover a short period (for example, three months) and serve as temporary spending authority. Should an interim budget be considered the “original” budget?

A—No. The original budget should be the first budget that covers the entire fiscal period.

[GASBIG 2015-1, Q7.92.1]

~~.764-15763-18~~ Q—Should the automatic carryover of encumbrances be included as part of the original budget even though the exact amount of the encumbrances may not be known at the time the budget is adopted?

A—Yes. Paragraph ~~.209a206a~~ of this section states that the original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the

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automatic rolling forward of appropriations to cover prior-year encumbrances. In essence, the adopted budget includes a provision to cover prior-year encumbrances in whatever amounts they may be. The amounts will likely be known (or can be reasonably estimated) by the time the financial statements are issued after the year-end.

[GASBIG 2015-1, Q7.92.2]

~~.764-16763-19~~ Q—Does the final budget include amendments made to the budget (transfers of appropriations between line items, for example) *after* the fiscal year ends?

A—Yes. Paragraph ~~.209b206b~~ of this section states that the final budget should incorporate amendments regardless of when signed into law or otherwise legally authorized.

[GASBIG 2015-1, Q7.92.3]

~~.764-17763-20~~ Q—Paragraph ~~.210207~~ of this section requires disclosure in notes to RSI of excesses of budgetary outflows of resources over expenditures over appropriations in the general fund and each major special ~~resources~~ revenue fund that has a legally adopted annual budget. Is disclosure in notes to RSI required for similar excesses in other governmental funds?

A—No. However, ~~paragraph~~ Disclosure may be required. Paragraph .106h of Section 2300 requires disclosure in the notes to the financial statements of significant violations of finance-related legal and contractual provisions in notes to the basic financial statements. Therefore, disclosure in notes to the basic financial statements of the excess of budgetary outflows of resources over expenditures over appropriations is required for any fund, including nonmajor special ~~resources~~ revenue funds, capital projects funds, or debt service funds, *if the overage over expenditure constitutes a significant violation of finance-related legal and contractual provisions*. In addition, paragraph .106h requires governments to disclose in notes to financial statements actions taken to address such violations.

[GASBIG 2015-1, Q7.93.1, as amended by GASBS XX, ¶27, ¶28, and ¶34]

~~.764-18~~ Q—Should ~~RSI~~, should material violations of budgetary spending limitations (excess of budgetary outflows of resources over expenditures over appropriations) be disclosed in notes to RSI?

A—Paragraph ~~.210207~~ of this section states that notes to RSI should disclose excesses of budgetary outflows of resources over expenditures over appropriations in individual funds presented in the budgetary comparison. In addition, if the excess is considered to be a

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significant violation of finance-related legal provisions, a disclosure in the notes to the basic financial statements is required. (See also Question ~~.764-17763-20~~ in this section.)

[GASBIG 2015-1, Q7.93.2, as amended by GASBS XX, ¶127 and ¶134]

~~.764-19~~ ~~.763-22~~ Q—Some funds that are maintained as special resources ~~revenue~~ funds for accounting purposes do not meet the criteria for separate reporting in external financial statements and therefore should be presented as part of the general fund or a qualifying special resources ~~revenue~~ fund. Should the budgetary information relative to those funds be included in the general fund or qualifying special resources ~~revenue~~ fund budgetary comparison?

A—No. The information in the budgetary comparison should be the legally adopted budget for the general fund or major special resources ~~revenue~~ fund. The additional budgetary inflows of resources ~~revenues~~ and budgetary outflows of resources ~~expenditures~~ pertaining to the other funds result from perspective differences and should be explained in the reconciliation of budgetary information to generally accepted accounting principles information.

[GASBIG 2015-1, QZ.54.41, as amended by GASBS XX, ¶127 and ¶128]

~~.764.765~~ Combining Statements and Individual Fund Statements and Schedules

No questions assigned.

~~.765.766~~ Schedules

No questions assigned.

~~.766.767~~ Narrative Explanations

No questions assigned.

~~.767.768~~ Statistical Tables

No questions assigned.

~~.768.769~~ Required Major Component Unit Information

~~.769-1768-1~~ Q—Paragraph 456 in the Basis for Conclusions of Statement 34 explains that users interested in cash flow information about a specific component unit should refer to the component unit's separately issued financial statements. If a component unit does not issue separate financial statements, is cash flow information for the component unit required to be presented in the reporting entity's comprehensive annual financial report (CAFR)?

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A—Yes. If a component unit does not issue separate financial statements, fund financial statements for that component unit should be included in the reporting entity's CAFR. Therefore, if the component unit has proprietary funds, cash flow statements for those funds would be included in the major component unit information in the reporting entity's CAFR as supplementary information.

[GASBIG 2015-1, Q2.4.1]

~~.769-2768-2~~ Q—Does Section 2450 apply to component units when they are included in a governmental financial reporting entity? Does it matter if the component units are blended or discretely presented?

A—Generally, a statement of cash flows is not required for discretely presented component units. (See Questions .704-1 and .704-7 in Section 2600.) Paragraph ~~.217-214~~ of this section requires discrete presentation of component unit financial data in the reporting entity's statement of net position and statement of activities—there is no “government-wide” cash flows statement. However, the balances and transactions of *blended* component units are included as if they were balances and transactions of the primary government itself. Therefore, if a component unit is “blended” as an enterprise fund, a statement of cash flows would be required for that fund, either presented separately as a major fund or aggregated with other nonmajor enterprise funds.

[GASBIG 2015-1, Q2.4.2]

~~.769-3768-3~~ Q—A public university uses the BTA model and has a closely related fund-raising foundation that meets the component unit criteria in paragraph ~~.141-140~~ of Section 2100. The foundation's financial statements will be included through discrete presentation. Is the university required to include the foundation's cash flow information in its statement of cash flows?

A—No. Paragraph ~~.217-214~~ of this section states that the discrete presentation requirements are met by displaying component unit financial data in the statements of net position and activities. Even though that requirement is stated in terms that apply to reporting governmental activities, the standard should be comparably applied, in substance, to the BTA model. That is, component unit data should be included by discrete presentation in the statements of financial position (statement of net position/balance sheet) and changes in financial position (statement of revenues, expenses, and changes in net position). Paragraph ~~.217-214~~ does not include a requirement to display component unit cash flow information.

[GASBIG 2015-1, Q2.4.3]

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~~.769-4768-4~~ Q—If a government determines that segment disclosures for a major discretely presented component unit should be included in the notes, is a condensed statement of cash flows required?

A—No. A condensed statement of cash flows would not be required in the segment disclosures for a major component unit. Cash flow reporting is not required for component units anywhere else—not in the government-wide statements and not in the major component unit information. Paragraph 456 in the Basis for Conclusions of Statement 34 states that users interested in cash flow information about a specific component unit should refer to the component unit's separately issued financial statements. (See Question .768-1 in this section about component units that do not issue separate financial reports.)

[GASBIG 2015-1, Q7.86.6]

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AICPA LITERATURE CLEARED BY THE GASB

**Reporting Appropriations between Primary Governments and Their
Component Units**

.801 Noncapital subsidies.~~801 Nonoperating revenues generally should~~ include revenues from appropriations between primary governments and their component units for operating purposes or that may be used, at the recipient's discretion, for either operating purposes or capital outlay. [AICPA SLG 2002, ¶6.73 and ¶12.70, as amended by GASBS XX, ¶31 and ¶32]

ADDITIONAL FINANCIAL REPORTING CONSIDERATIONS

SECTION 2250

Sources: GASBS 56, GASBS 62, GASBIG 2015-1

See also: Section 2200, “Comprehensive Annual Financial Report” Section 2300, “Notes to the Financial Statements”

Scope and Applicability of This Section

.101 This section establishes accounting and financial reporting standards for related party transactions, subsequent events, going concern considerations, prior-period adjustments, and accounting changes and error corrections. This section applies to all state and local governments. Paragraphs .102, .107, .108, and .501–.504 apply to accounting and financial reporting for governmental activities, business-type activities, and proprietary funds. Those paragraphs also apply to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds. [GASBS 56, ¶2; GASBS 62, ¶3 and ¶54–¶89]

Related Party Transactions

.102 Paragraphs .103–.108 provide guidance on disclosures of transactions between **related parties**.¹ Examples of related party transactions include transactions (a) between a government and its related organizations, joint ventures, and jointly governed organizations; (b) between a government and its elected and appointed officials, **management**, or members of their **immediate families**; and (c) between a government and trusts for the benefit of employees, such as pension and other postemployment benefit trusts that are managed by or under the trusteeship of the government’s management. Transactions between related parties commonly occur in the normal course of operations. Some examples of common types of transactions with related parties are sales, purchases, and transfers of realty and personal property; services received or furnished, for example, accounting, management, engineering, and legal services; use of capital assets by lease or otherwise; borrowings and lendings; guarantees; and reimbursements based on allocations of common costs. Transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition. For example, a government may receive services from a related party without charge and not record receipt of the services. [GASBS 62, ¶54]

¹Terms defined in paragraphs .501–.504 are shown in **boldface type** the first time they appear in paragraphs .102–.108. [GASBS 62, fn26]

.103 State and local governments are required to disclose certain related party transactions.² If the substance of a particular transaction is significantly different from its form because of the involvement of related parties, financial statements should recognize the substance of the transaction rather than merely its legal form. [GASBS 56, ¶14]

.104 Examples of transactions with related parties that have features that may indicate that governments should consider whether a *form-over-substance* condition exists include:

- a. Borrowing or lending on an interest-free basis or at a rate of interest significantly above or below market rates prevailing at the time of the transaction
- b. Selling real estate at a price that differs significantly from its appraised value
- c. Exchanging property for similar property in a nonmonetary transaction
- d. Making loans with no scheduled terms for when or how the loans will be

repaid. [GASBS 56, ¶15]

.105 Determining the substance of a related party transaction may pose challenges not present in assessing transactions between unrelated parties. For example, a related party relationship may result in transactions that would not take place between unrelated parties or would be subject to different terms and conditions. In such cases, the substance of the related party transaction may differ from its legal form due to the related party relationship.³ [GASBS 56, ¶16]

.106 It may not be possible to determine whether a particular transaction would have taken place if the parties had not been related, or what the terms and conditions would have been. Therefore, it may be difficult to determine whether a transaction was consummated on terms comparable to those that would be present in arm's-length transactions. Furthermore, governments frequently enter into transactions and engage in activities that are driven by societal needs and concern for the "public good." Therefore, it may not be appropriate to compare some governmental programs and arrangements to what might have occurred in an arm's-length transaction in the private sector or with unrelated parties. [GASBS 56, ¶17]

²See paragraphs .107 and .108. [GASBS 62, ¶155 and ¶156]

³For example, Section S20, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," includes requirements that affect the basis of assets transferred within the same financial reporting entity. That requirement results in a measurement that is different from what would have occurred in an arm's-length transaction with an external party. [GASBS 56, fn2]

.107 Financial statements should include disclosures of related party transactions, other than compensation arrangements, expense ~~expenditure~~ allowances, and other similar items in the ordinary course of operations. The disclosures should include:⁴

- a. The nature of the relationship(s) involved
- b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which financial statements are presented, and such other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements
- c. The dollar amounts of transactions for each of the periods for which financial statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period
- d. Amounts due from or to related parties as of the date of each statement of net position⁵ presented and, if not otherwise apparent, the terms and manner of settlement.

[GASBS 62, ¶155, as amended by GASBS 63, ¶18 and GASBS XX, ¶127]

.108 Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, should not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated. [GASBS 62, ¶156]

Subsequent Events

.109 Events or transactions that affect the financial statements sometimes occur subsequent to the statement of net position⁶ date but before financial statements are issued. Some of those transactions and events (referred to as *recognized events*) require adjustments to the financial statements while others (referred to as *nonrecognized events*) may require disclosure in the notes to the financial statements. [GASBS 56, ¶18, as amended by GASBS 63, ¶18]

⁴In some cases, aggregation of similar transactions by type of related party may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed. [GASBS 62, fn27]

⁵For purposes of applying paragraphs .107 and .108, the term *statement of net position* includes the government-wide statement of net position, the governmental fund short-term financial resources balance sheet, and the proprietary fund statement of fund net position. [GASBS 62, fn28, as amended by GASBS 63, ¶18 and GASBS XX, ¶111]

⁶For purposes of applying paragraphs .109–.120, the term *statement of net position* includes the government-wide statement of net position, governmental fund short-term financial resources balance sheet, proprietary fund statement of fund net position, and statement of fiduciary net position, which are required to be presented as components of the basic financial statements. [GASBS 56, fn3, as amended by GASBS 63, ¶18 and GASBS XX, 11]

.110 Recognized events consist of those events that provide additional evidence with respect to conditions that existed at the date of the statement of net position and affect the estimates inherent in the process of preparing financial statements. All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence. [GASBS 56, ¶9, as amended by GASBS 63, ¶8]

.111 Nonrecognized events consist of those events that provide evidence with respect to conditions that did not exist at the date of the statement of net position but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that their disclosure is essential to a user's understanding of the financial statements. [GASBS 56, ¶10, as amended by GASBS 63, ¶8]

.112 Identifying recognized events that require adjustment of the financial statements calls for the exercise of professional judgment and knowledge of the facts and circumstances. For example, a water utility's loss from an uncollectible account receivable as a result of a major customer's deteriorating financial condition leading to the bankruptcy of that customer subsequent to the statement of net assets date may be indicative of conditions existing at the statement of net assets date, thereby calling for adjustment of the financial statements before their issuance. In contrast, a similar loss resulting from that customer's major casualty, such as a fire or flood, subsequent to the statement of net assets date would not be indicative of conditions existing at the statement of net assets date, and adjustment of the financial statements would not be appropriate. The settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the event that gave rise to the litigation, such as a personal injury occurring on government property, had taken place prior to the statement of net assets date. [GASBS 56, ¶11]

.113 Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements because such changes typically reflect a concurrent evaluation of new conditions. [GASBS 56, ¶12]

.114 Other examples of nonrecognized events that require disclosure in the notes to the financial statements but should not result in adjustment include the issuance of bonds, the creation of a new component unit, or the loss of a government facility as a result of a tornado, fire, or flood. [GASBS 56, ¶13]

.115 When financial statements are reissued, certain events may have occurred subsequent to the original issuance that require disclosure. Events requiring disclosure

are those that are considered essential to a user's understanding of the reissued financial statements. These events, occurring between the time of original issuance and reissuance of financial statements, should not result in adjustment of the financial statements unless the adjustment meets the criteria for the correction of an error or the criteria for prior-period adjustments. That also is the case for events occurring subsequent to the original issuance when financial statements are reissued in comparative form with financial statements of subsequent periods. [GASBS 56, ¶14]

.116 Section 2200, paragraph ~~109.110~~, requires a discussion in management's discussion and analysis (MD&A) of currently known facts, decisions, or conditions that are expected to have a significant effect on the government's financial position or that are expected to produce significant differences from current period results of operations. It may be necessary to include a discussion of subsequent events in the MD&A, depending on the facts and circumstances. [GASBS 56, ¶15, as amended by GASBS XX, ¶8]

Going Concern Considerations

.117 Continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Financial statement preparers have a responsibility to evaluate whether there is substantial doubt about a government's ability to continue as a going concern for 12 months beyond the financial statement date. Moreover, if there is information that is currently known to the government that may raise substantial doubt shortly thereafter (for example, within an additional three months), it also should be considered. [GASBS 56, ¶16]

.118 Indicators that there may be substantial doubt about a governmental entity's ability to continue as a going concern include:

- a. *Negative trends*—for example, recurring periods in which expenses/expenditures—outflows of short-term financial resources significantly exceed revenues/inflows of short-term financial resources, recurring unsubsidized operating losses in business-type activities, consistent working capital deficiencies, continuing negative operating cash flows from business-type activities, or adverse key financial ratios
- b. *Other indications of possible financial difficulties*—for example, default on bonds, loans or similar agreements, proximity to debt and tax limitations, denial of usual trade credit from suppliers, restructuring of debt (other than refundings), noncompliance with statutory capital or reserve requirements, or the need to seek new sources or methods of financing or to dispose of substantial assets
- c. *Internal matters*—for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project or program, uneconomic long-term commitments (burdensome labor contracts, for example), or the need to significantly revise operations

- d. *External matters*—for example, legal proceedings, legislation, or similar matters that might jeopardize intergovernmental revenues and the fiscal sustainability of key governmental programs; loss of a critical license or patent for a business-type activity; loss of a principal customer, taxpayer, or supplier; or uninsured or underinsured catastrophe such as a drought, earthquake, or flood.

[GASBS 56, ¶17, as amended by GASBS XX, ¶22 and ¶23]

.119 In all cases, the effect of the governmental environment should be considered when evaluating the indicators. For example, the taxing power and borrowing capabilities of governments together with the constant demand for the provision of public services are factors that may diminish the possibility that a government would be unable to continue as a going concern. Some conditions or situations identified in the indicators in paragraph .118 should be assessed differently for governments. For example, recurring operating losses are commonplace for some business-type activities such as transit operations or governmental healthcare organizations. However, quality-of-life considerations and the health and welfare needs and interests of the citizenry may create compelling incentives for those operations to be subsidized to the extent necessary by another governmental entity. [GASBS 56, ¶18]

.120 If it is determined that there is substantial doubt about a governmental entity's ability to continue as a going concern, the notes to the financial statements should include disclosure of the following, as appropriate:

- a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the government's ability to continue as a going concern for a reasonable period of time, as discussed in paragraph .117
- b. The possible effects of such conditions and events
- c. Government officials' evaluation of the significance of those conditions and events and any mitigating factors
- d. Possible discontinuance of operations
- e. Government officials' plans (including relevant prospective financial information)
- f. Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

In addition, Section 2200, paragraph ~~.110109~~, requires a discussion in MD&A of currently known facts, decisions, or conditions that are expected to have a significant effect on the government's financial position or that are expected to produce significant differences from current period results of operations. It may be necessary to include a discussion of going concern issues in the MD&A, depending on the facts and circumstances. [GASBS 56, ¶19, as amended by GASBS XX, ¶8]

Prior-Period Adjustments

.121 Paragraphs .121–.125 do not affect the manner of reporting accounting changes required or permitted by other provisions of this section and other authoritative pronouncements.⁷ [GASBS 62, ¶58]

.122 Except as specified in paragraph .123, all increases and decreases in net position recognized during a period, including accruals of estimated losses from loss contingencies, should be included in the change in net position section of the flows statement⁸ for that period. [GASBS 62, ¶59, as amended by GASBS 63, ¶8]

.123 A correction of an error in previously issued financial statements⁹ should be accounted for and reported as a prior-period adjustment¹⁰ and excluded from the change in net position section of the flows statement for the current period. [GASBS 62, ¶60, as amended by GASBS 63, ¶8]

.124 Those items that are reported as prior-period adjustments should, in single-period statements, be reflected as adjustments of the opening balance of net position. When comparative statements are presented, corresponding adjustments should be made of the amounts reported in the flows statement and the statement of net position¹¹ for all of the periods reported therein to reflect the retroactive application of the prior-period adjustments. (See paragraph .125 for required disclosures of prior-period adjustments.) [GASBS 62, ¶61, as amended by GASBS 63, ¶8]

**Disclosure of Prior-Period Adjustments and Restatements of Reported
Changes in Net Position**

.125 When prior-period adjustments are recorded, the resulting effects on the change in net position of prior periods should be disclosed in the notes to the financial statements in the period in which the adjustments are made. When financial statements for a single period only are presented, the disclosure should indicate the effects of such

⁷Accounting changes resulting in restatement of previously issued financial statements of prior periods include a change in accounting method permitted by a change in the reporting entity described in paragraph .149. [GASBS 62, fn29]

⁸For purposes of applying paragraphs .121–.125, the term *flows statement* includes the government-wide statement of activities and the proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 62, fn30, as amended by GASBS 63, ¶8]

⁹A *correction of an error in previously issued financial statements* is used here as that term is defined in paragraph .135. That paragraph also describes the distinction between a correction of an error and a change in accounting estimate. [GASBS 62, fn31]

¹⁰The reporting of prior-period adjustments is described in paragraphs .124 and .125. [GASBS 62, fn32]

¹¹For purposes of applying paragraphs .121–.125, the term *statement of net position* includes the government-wide statement of net position and the proprietary fund statement of fund net position. [GASBS 62, fn33, as amended by GASBS 63, ¶8]

restatement on the balance of net position at the beginning of the period and on the change in net position of the immediately preceding period. When financial statements for more than one period are presented, the disclosure should include the effects for each of the periods included in the statements. Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure is not required. [GASBS 62, ¶62, as amended by GASBS 63, ¶8]

Accounting Changes and Error Corrections

.126 Paragraphs .126–.152 define various types of accounting changes and establish guidance for determining the manner of reporting and disclosing each type. Those paragraphs also cover reporting a correction of an error in previously issued financial statements. [GASBS 62, ¶63]

.127 Each Statement and Interpretation of the GASB specifies its effective date and the manner of reporting a change to conform with the conclusions of that pronouncement. Other pronouncements of the GASB or the AICPA as described in Category B in the hierarchy of generally accepted accounting principles (GAAP), described in Section 1000, “The Hierarchy of Generally Accepted Accounting Principles,” also may establish the manner of reporting a change in accounting principle. Accordingly, the provisions of paragraphs .126–.152 do not apply to changes made in conformity with such pronouncements issued in the past or in the future. [GASBS 62, ¶64, as amended by GASBS 76, ¶4]

Types of Accounting Changes

.128 The term *accounting change* as used in paragraphs .126–.152 means a change in (a) an accounting principle, (b) an accounting estimate, or (c) the reporting entity (which is a special type of change in accounting principle classified separately for purposes of applying paragraphs .128–.152). The correction of an error in previously issued financial statements is not an accounting change. [GASBS 62, ¶65]

Change in Accounting Principle

.129 A change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term *accounting principle* includes not only accounting principles and practices but also the methods¹² of applying them. [GASBS 62, ¶66]

.130 A characteristic of a change in accounting principle is that it concerns a choice from among two or more generally accepted accounting principles. However, neither

(a) initial adoption of an accounting principle in recognition of events or transactions

¹²This provision does not apply to the term *method* when it is used in conjunction with depreciation, depletion, or amortization. [GASBS 62, fn34]

occurring for the first time or that previously were insignificant in their effect nor (b) adoption or modification of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring is a change in accounting principle. [GASBS 62, ¶67]

.131 Changes in accounting principle are numerous and varied. They include, for example, a change in the policy for determining which short-term, highly liquid investments will be treated as cash equivalents. (Paragraph .133 covers a change in accounting principle to effect a change in estimate.) [GASBS 62, ¶68]

Change in Accounting Estimate

.132 Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives and salvage values of depreciable assets, and periods benefited by an amount paid in advance. Future events and their effects cannot be perceived with certainty; estimating, therefore, requires the exercise of judgment. Therefore, accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained. [GASBS 62, ¶69, as amended by GASBS 65, ¶31]

Change in estimate effected by a change in accounting principle

.133 Distinguishing between a change in an accounting principle and a change in an accounting estimate is sometimes difficult. For example, a government may change from capitalizing a cost to recording it as an expense when incurred because future benefits of the cost have become doubtful. The new accounting method is adopted, therefore, in partial or complete recognition of the change in estimated future benefits. The effect of the change in accounting principle is inseparable from the effect of the change in accounting estimate. Changes of this type are often related to the continuing process of obtaining additional information and revising estimates and are, therefore, considered to be changes in estimates for purposes of applying paragraphs .128–.152. [GASBS 62, ¶70, as amended by GASBS 65, ¶31]

Change in the Reporting Entity

.134 One special type of change in accounting principle results in financial statements that, in effect, are those of a different reporting entity. This type is limited mainly to changing the organizations included in a reporting entity's financial statements. A different group of organizations comprise the reporting entity after each change. [GASBS 62, ¶71]

Correction of an Error in Previously Issued Financial Statements

.135 Reporting a correction of an error in previously issued financial statements concerns factors similar to those relating to reporting an accounting change and is therefore discussed in paragraphs .128–.152. Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. In contrast, a change in accounting estimate results from new information or subsequent developments and, accordingly, from better insight or improved judgment. Therefore, an error is distinguishable from a change in estimate. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error for purposes of applying paragraphs .126–.152. [GASBS 62, ¶72]

Justification for a Change in Accounting Principle

.136 In the preparation of financial statements, there is a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data. [GASBS 62, ¶73]

.137 The presumption that a government should not change an accounting principle may be overcome only if the government justifies the use of an alternative acceptable accounting principle on the basis that it is preferable. However, a method of accounting that previously was adopted for a type of transaction or event that is being terminated or that was a single, nonrecurring event in the past should not be changed. For example, the method of accounting should not be changed for inventory that is being discontinued. This does not imply, however, that a change in the estimated period to be benefited for an amount paid in advance (if justified by the facts) should not be recognized as a change in accounting estimate. The issuance of a new pronouncement by the GASB or the AICPA as described in Category A and Category B of the GAAP hierarchy discussed in Section 1000 that creates a new accounting principle, interprets an existing principle, expresses a preference for an accounting principle, or rejects a specific principle *may require* a government to adopt a change in accounting principle. The issuance of such a pronouncement is considered to constitute sufficient support for making a change in accounting principle provided that the hierarchy presented in Section 1000 is followed. The burden of justifying other changes rests with the government proposing the change. [GASBS 62, ¶74, as amended by GASBS 65, ¶31 and GASBS 76, ¶4]

General Disclosure—A Change in Accounting Principle

.138 The nature of and justification for a change in accounting principle and its effect on beginning net position/fund net position should be disclosed in the financial

statements of the period in which the change is made. The justification for the change should explain clearly why the newly adopted accounting principle is preferable. [GASBS 62, ¶75, as amended by GASBS 63, ¶8]

Reporting a Change in Accounting Principle

.139 Changes in accounting should be recognized by adjusting the beginning net position/ fund net position in the period of the change for the cumulative effect of changing to a new accounting principle (paragraphs .140–.145),¹³ but a change in reporting entity should be reported by restating the financial statements of prior periods (paragraphs .149 and .150). [GASBS 62, ¶76, as amended by GASBS 62, ¶8]

.140 For all changes in accounting principle except for a change in reporting entity described in paragraphs .149 and .150:

- a. Financial statements for prior periods included for comparative purposes should be presented as previously reported.
- b. The cumulative effect of changing to a new accounting principle on the amount of net position/fund net position at the beginning of the period in which the change is made should be reported as an adjustment to amounts previously reported.
- c. The effect of adopting the new accounting principle on the change in net position/ fund net position of the period of the change should be disclosed.
- d. Changes in net position/fund net position computed on a pro forma basis should be shown on the face of the flows statements¹⁴ for all periods presented as if the newly adopted accounting principle had been applied during all periods affected (paragraph .142).

Thus, the change in net position/fund net position (exclusive of the cumulative adjustment) for the period of the change should be reported on the basis of the newly adopted accounting principle. The conclusions in this paragraph are modified for various special situations, which are described in paragraphs .143 and .144. [GASBS 62, ¶77, as amended by GASBS 63, ¶8]

Cumulative Effect of a Change in Accounting Principle

.141 The adjustment to beginning net position/fund net position for the cumulative effect of changing to a new accounting principle is the difference between (a) the balance of net position/fund net position at the beginning of the period of a change and (b)

¹³ Changes in accounting principles should not be reported as a separately identified cumulative effect in the current-period statement of activities or proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 34, fn13, as amended by GASBS 62, ¶77–¶82 and GASBS 63, ¶8]

¹⁴For purposes of applying paragraphs .126–.152, the term *flows statement* includes the government-wide statement of activities and the proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 62, fn35, as amended by GASBS 63, ¶8]

the balance of net position/fund net position that would have been reported at that date if the new accounting principle had been applied retroactively for all prior periods that would have been affected. [GASBS 62, ¶78, as amended by GASBS 63, ¶8]

Pro Forma Effects of Retroactive Application

.142 Pro forma effects of retroactive application (paragraph .140d) should be shown on the face of the flows statement for the change in net position/fund net position. Pro forma amounts should be shown in both current and future reports for all periods presented that are prior to the change and that would have been affected. If a flows statement is presented for the current period only, the actual and the pro forma amounts for the immediately preceding period should be disclosed. [GASBS 62, ¶79, as amended by GASBS 63, ¶8]

Pro Forma Amounts Not Determinable

.143 In rare situations, the pro forma amounts described in paragraph .142 cannot be computed or reasonably estimated for individual prior periods, although the cumulative effect on net position/fund net position at the beginning of the period of change can be determined. The reason for not showing the pro forma amounts by periods should be explained because disclosing those amounts is otherwise required. [GASBS 62, ¶80, as amended by GASBS 63, ¶8]

Cumulative Effect Not Determinable

.144 Computing the effect on net position/fund net position at the beginning of the period in which a change in accounting principle is made may sometimes be impossible. In those rare situations, a government should disclose the effect of the change on the results of operations of the period of change and explain the reason for omitting accounting for the cumulative effect and disclosure of pro forma amounts for prior years. The principal example of this type of accounting change is a change in inventory pricing method from first in, first out (FIFO) to last in, first out (LIFO). [GASBS 62, ¶81, as amended by GASBS 63, ¶8]

Reporting Accounting Changes under Other Pronouncements

.145 For purposes of applying paragraphs .128–.152, a government making a change in accounting principle to conform with a GASB Technical Bulletin or AICPA literature cleared by the GASB, should report the change as specified in the pronouncement. If the pronouncement does not specify the manner of reporting a change in accounting principle, a government making a change in accounting principle to conform with the pronouncement should report the change as specified by paragraphs .128–.152. [GASBS 62, ¶82, as amended by GASBS 76, ¶4]

Reporting a Change in Accounting Estimate

.146 The effect of a change in accounting estimate should be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both. A change in an estimate should not be accounted for by restating amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.¹⁵ [GASBS 62, ¶83]

.147 A change in accounting estimate that is recognized in whole or in part by a change in accounting principle should be reported as a change in an estimate because the cumulative effect attributable to the change in accounting principle cannot be separated from the current or future effects of the change in estimate (paragraph .133). [GASBS 62, ¶84]

Disclosure

.148 The effect on the change in net position/fund net position of the current period should be disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on the change in net position/fund net position is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence. [GASBS 62, ¶85, as amended by GASBS 63, ¶8]

Reporting a Change in the Entity

.149 Accounting changes that result in financial statements that are, in effect, the statements of a different reporting entity (paragraph .134) should be reported by restating the financial statements of all prior periods presented in order to show financial information for the new reporting entity for all periods. [GASBS 62, ¶86]

Disclosure

.150 The financial statements of the period of a change in the reporting entity should describe the nature of the change and the reason for it. In addition, the effect of the change on beginning net position/fund net position should be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures. [GASBS 62, ¶87, as amended by GASBS 63, ¶8]

¹⁵Specific guidance for reporting changes in estimates by municipal solid waste landfills is provided in paragraphs .111 and .112 of Section L10, "Landfill Closure and Postclosure Care Costs." [GASBS 62, fn36]

Reporting a Correction of an Error in Previously Issued Financial Statements

.151 Correction of an error in the financial statements of a prior period discovered subsequent to their issuance (paragraph .135) should be reported as a prior-period adjustment. (Paragraphs .124 and .125 cover the manner of reporting prior-period adjustments.) [GASBS 62, ¶88]

Disclosure

.152 The nature of an error in previously issued financial statements and the effect of its correction on the change in net position/fund net position should be disclosed in the period in which the error was discovered and corrected. Financial statements of subsequent periods need not repeat the disclosures. [GASBS 62, ¶89, as amended by GASBS 63, ¶8]

**Additional Financial Reporting
Considerations**

2250.504

DEFINITIONS

.501 The following paragraphs contain definitions of certain terms *as they are used in certain paragraphs in this section*. The paragraphs to which each definition applies are noted parenthetically at the end of each entry; the terms may have different meanings in other contexts. [GASBS 62, ¶57]

.502 **Immediate family(ies)**. Family members whom an elected or appointed official or a member of management might influence or by whom they might be influenced because of the family relationship. (.102–.108) [GASBS 62, ¶57]

.503 **Management**. Persons who are responsible for achieving the objectives of the government and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes the chief executive officer (for example, city manager), directors or secretaries in charge of principal government departments or functions (such as service provision administration or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management. (.102–.108) [GASBS 62, ¶57]

.504 **Related parties**. A government's related organizations, joint ventures, and jointly governed organizations, as defined in Section 2100; elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties (for example, through imposition of will as discussed in Statement 14, as amended) or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. (.102–.108) [GASBS 62, ¶57]

Additional Financial Reporting Considerations

2250.704

GASB IMPLEMENTATION GUIDES

.701 Scope and Applicability of This Section

No questions assigned.

.702 Related Party Transactions

No questions assigned.

.703 Subsequent Events

.703-1 Q—After the close of the fiscal year but before the financial statements are prepared, a debt investment's credit quality rating is downgraded. Should this be reported as a subsequent event?

A—Paragraph .111 of this section requires disclosure of a subsequent event when the omission of the disclosure would cause the financial statements to be misleading. Whether or not a debt investment's credit quality rating downgrade is significant to the reporting entity's financial statements calls for the exercise of professional judgment. Restrictions on the types of investments allowed by **legal provisions**¹⁶ or statutory provisions and by the government's investment policy may prevent a government from having a large credit risk exposure in a single entity's investment (concentration of credit risk). A single investment's downgrade after the date of the financial statements generally may not represent a subsequent event requiring disclosure. However, should a government have a concentration of credit risk in a single investment, credit quality rating downgrades after the date of the financial statements may expose the government to a significantly higher level of credit risk exposure that may require disclosure as a subsequent event. For example, a bond downgraded after the date of the financial statements on account of a bankrupt issuer may indicate a large investment loss for the government. If the value of the investment is significant to the government's total investment portfolio, disclosure of such an event may be required.

[GASBIG 2015-1, Q1.9.11]

.704 Going Concern Considerations

No questions assigned.

¹⁶Terms defined in paragraph .727 of this section are shown in **boldface type** the first time they appear in paragraphs .701–.726 of this section. [GASBIG 2015-1, fn1]

2250.705

Financial Reporting

.705 Prior-Period Adjustments

No questions assigned.

.706 Disclosure of Prior-Period Adjustments and Restatements of Reported Changes in Net Position

No questions assigned.

.707 Accounting Changes and Error Corrections

No questions assigned.

.708 Types of Accounting Changes

No questions assigned.

.709 Change in Accounting Principle

.709-1 Q—Is a change in capitalization threshold a change in accounting principle that requires restatement of beginning net position?

A—No. Use of a capitalization threshold is an application of accounting policy, not a change in accounting principle. Changes in capitalization threshold involve many considerations such as ensuring that all significant capital assets, collectively, are capitalized while considering the cost of record keeping for capital assets.

[GASBIG 2015-1, Q7.22.17]

.710 Change in Accounting Estimate

No questions assigned.

.711 Change in estimate effected by a change in accounting principle

No questions assigned.

.712 Change in the Reporting Entity

No questions assigned.

.713 Correction of an Error in Previously Issued Financial Statements

No questions assigned.

***Additional Financial Reporting
Considerations***

2250.724

.714 Justification for a Change in Accounting Principle

No questions assigned.

.715 General Disclosure—A Change in Accounting Principle

No questions assigned.

.716 Reporting a Change in Accounting Principle

No questions assigned.

.717 Cumulative Effect of a Change in Accounting Principle

No questions assigned.

.718 Pro Forma Effects of Retroactive Application

No questions assigned.

.719 Pro Forma Amounts Not Determinable

No questions assigned.

.720 Cumulative Effect Not Determinable

No questions assigned.

.721 Reporting Accounting Changes under Other Pronouncements

No questions assigned.

.722 Reporting a Change in Accounting Estimate

No questions assigned.

.723 Disclosure

No questions assigned.

.724 Reporting a Change in the Entity

.724-1 Q—An organization that was reported as a component unit of a state no longer qualifies as a component unit. How should the state report that change in the reporting entity?

2250.724

Financial Reporting

A—The state should restate its beginning net position as if the organization was not in the reporting entity in the preceding year, as discussed in paragraph .149 of this section. In addition, the state should make the disclosures required by paragraph .150 of this section. The financial statements would report “net position, beginning of the year (as restated),” and the restatement would be explained in the notes.

[GASBIG 2015-1, Q4.38.3]

.724-2 Q—A blended component unit that was reported as a special ~~resources~~ ~~revenue~~ fund of a primary government ceases to be legally separate and becomes a department of the primary government. It continues to meet the requirements for reporting as a special ~~resources~~ ~~revenue~~ fund. Does this constitute a change in reporting entity as discussed in paragraph .149 of this section?

A—Yes. However, restatement of the financial statements is not necessary if the accounts reported by the primary government have not changed. The primary government should disclose the nature of the change and the reasons for it, as discussed in paragraph .150 of this section.

[GASBIG 2015-1, Q4.38.4, as amended by GASBS XX, ¶128]

.725 Disclosure

No questions assigned.

.726 Reporting a Correction of an Error in Previously Issued Financial Statements

No questions assigned.

.727 Disclosure

.727-1 Q—How should a government report the correction of an error in previously issued financial statements?

A—A correction of an error is addressed in paragraphs .151 and .152 of this section, which requires that the correction of an error be reported as restatements of beginning net position/fund balances, not as a separately identified cumulative effect in the current-period statement of activities or proprietary fund statement of revenues, expenses, and changes in fund net position. Paragraph .151 states that a correction of an error should be reported as a prior period adjustment. Consistent with footnote 13 of this section, governments should implement that requirement by either displaying the amount on the face of the statement as an adjustment to *beginning net position/fund balance*, as *previously reported*, or by displaying *beginning net*

position/fund balances, as restated, with an explanation of the restatement in the notes to the financial statements. When comparative statements are presented, corresponding adjustments should be made to the transactions and balances for all periods presented to incorporate the retroactive application of the prior period adjustments, as discussed in paragraph .124 of this section. [GASBIG 2015-1, Q7.22.16]

.728 Definitions

.728-1 The following paragraph contains a definition of a term *as it is used in Question .703-1*; the term may have different meanings in other contexts. [GASBIG 2015-1, ¶5]

.728-2 **Legal provisions.** Requirements that carry the force of law, including those arising from constitutions, statutes, charters, ordinances, resolutions, governing body orders, and intergovernmental grant or contractual regulations. [GASBIG 2015-1, ¶5]

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

Sources: NCGAS 1, NCGAI 6, as amended, GASBS 14, GASBS 34, GASBS 38, GASBS 42, GASBS 46, GASBS 48, GASBS 51, GASBS 54, GASBS 56, GASBS 62, GASBS 63, GASBS 69, GASBS 70, GASBS 72, GASBS 74, GASBS 75, GASBS 77, GASBS 85, GASBS 87, GASBS 88, GASBS 94, GASBS 96, GASBS XX, GASBIG 2015-1, GASBIG 2016-1, AICPA SLG 2002

See also: Section 2200, “Comprehensive Annual Financial Report”
Section 2250, “Additional Financial Reporting Considerations”

.101 Two types of disclosure are necessary in the comprehensive annual financial report (CAFR): (a) notes to the financial statements that are essential for fair presentation of the basic financial statements and (b) narrative explanations useful in providing an understanding of required supplementary information and combining, individual fund, and component unit statements and schedules. [NCGAS 1, ¶157, as amended by GASBS 14, ¶51 and ¶61–¶63, GASBS 34, ¶6, ¶80, ¶82, ¶131, and ¶133, and GASBS 68, ¶47, ¶82, and ¶115]

Notes to Financial Statements

.102 The notes to the financial statements should communicate information essential for fair presentation of the basic financial statements that is not displayed on the face of the financial statements. As such, the notes form an integral part of the basic financial statements. Notes should focus on the primary government—specifically, its governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate. Information about the government’s discretely presented component units should be presented as discussed in paragraph .105 of this section. [GASBS 34, ¶113]

.103 Certain information may be presented either on the face of the financial statements or in the notes to the financial statements. Disclosure in the notes to the financial statements is needed only when the information required to be disclosed is not displayed on the face of the financial statements. [GASBS 38, ¶5]

Focus of the Reporting Entity’s Note Disclosures and Required Supplementary Information

.104 One of the key aspects of the reporting entity concept is that users should be able to distinguish between the primary government and its component units. Thus, because the notes and required supplementary information (RSI) are integral parts of the financial statements, they should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units. [GASBS 14, ¶62]

.105 Except for required disclosures about certain pensions, determining which discretely presented component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit-by-component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the individual component unit's relationship with the primary government. For example, if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that debt-related disclosures should be made for that component unit. [GASBS 14, ¶63, as amended by GASBS 61, ¶11, GASBS 68, ¶18, GASBS 73, ¶24, and GASBS 75, ¶24 and ¶143]

.106 Notes to the financial statements essential to fair presentation in the basic financial statements include:

a. Summary of significant accounting policies,¹ including:²

- (1) A description of the government-wide financial statements, noting that fiduciary activities are not included. (See Section 2200, paragraph .111.112.)
- (2) A brief description of the component units of the financial reporting entity and their relationships to the primary government. This disclosure should include a discussion of the rationale for including each component unit in the financial reporting entity and whether it is discretely presented, blended, or included in the fiduciary fund financial statements. Component units may be disclosed together if they have common characteristics as long as each component unit is separately identified. The notes should also include information about how the separate financial statements for the individual component units may be obtained. (See Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," paragraph .126.)
- (3) A description of the activities accounted for in each of the following columns—major funds, internal service funds, and each type of fiduciary fund—presented in the basic financial statements. (See Section 1300, "Fund Accounting," paragraph .127.)
- (4) The measurement focus and basis of accounting used in the government-wide statements. (See Section 1600, "Basis of Accounting," paragraphs .103 and .104.)

¹Paragraphs .110–.116 require the Summary of Significant Accounting Policies as an integral part of the financial statements. [NCGAS 1, fn7, as amended by GASBS 62, ¶90–¶94]

²~~Governments, except those that are not able to present budgetary comparisons because of perspective differences as discussed in paragraph .113 of Section 2400, "Budgetary Reporting," may elect to report this budgetary comparison information in a budgetary comparison statement as part of the basic financial statements, rather than as RSI. If the budgetary comparison information is included in the basic statements, disclosures discussed in Section 2400, paragraph .103, should be included in the notes to the financial statements, rather than as RSI. [GASBS 34, fn53, as amended by GASBS 41, ¶13; GASBS 34, fn56] superseded by GASB XX, ¶134~~

- (5) ~~The revenue recognition policies used in fund financial statements, including the length of time used to define available for purposes of revenue recognition in the governmental fund financial statements. (See Section 1600, paragraphs .106–.115, .130, and .138.)~~
- (6)(5) The policy for eliminating internal activity in the government-wide statement of activities. (See Section 2200, paragraph .154.)
- (7)(6) The basis upon which inventory amounts are stated and, where practicable, indication of the method of determining the cost. (See Section 140, “Inventory,” paragraph .114.)
- (8)(7) The policy for capitalizing assets and for estimating the useful lives of those assets (used to calculate ~~depreciation~~³~~depreciation~~² expense) and the method or methods used in computing depreciation with respect to major classes of depreciable assets. (See Section 1400, “Reporting Capital Assets,” paragraphs .102 and .104.) Governments that choose to use the modified approach for reporting eligible infrastructure assets should describe that approach.
- (9)(8) A description of the types of transactions included in program revenues and the policy for allocating indirect expenses to functions in the statement of activities. (See Section 2200, paragraphs ~~.135–.140~~^{136–.141} and ~~.142~~¹⁴³.)
- (10) ~~The policy for defining operating and nonoperating revenues of proprietary funds. (See Section P80, “Proprietary Fund Accounting and Financial Reporting,” paragraph .115.)~~
- (11)(9) The definition of cash and cash equivalents used in the statement of cash flows for proprietary funds. (See Section 2450, “Cash Flows Statements,” paragraphs .106–.108.)
- (12)(10) The government’s policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. (See Section 1800, “Classification and Terminology,” paragraph .157–.)
- (13)(11) The government’s fund balance classification policies and procedures. (See Section 1800, paragraph .178.)
- b. Cash deposits with financial institutions. (See Section C20, “Cash Deposits with Financial Institutions.”)
- c. Investments. (See Section I50, “Investments.”)
- d. Significant contingent liabilities. (See Section 1500, “Reporting Liabilities,” paragraph .125, ~~and~~ Section C50, “Claims and Judgments,” paragraphs .115, .161–.164, .167, and .168, and Section C65, “Conduit Debt Obligations,” paragraph .121–.123.)
- e. Significant effects of subsequent events. (See Section 2250, paragraphs .109–.115.)
- f. Pension liabilities. (See Section P20, “Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit,” Section P21, “Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Contribution,” Section P22, “Pension Activities—Reporting

²³As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶15]

- for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Benefit,” and Section P24, “Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Contribution.”)
- g. Other postemployment benefit (OPEB) liabilities. (See Section P50, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit,” Section P51, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Contribution,” Section P52, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Benefit,” and Section P54, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Contribution.”)
 - h. Significant violations of finance-related legal or contractual provisions and actions taken to address such violations. (See Section 1200, “Generally Accepted Accounting Principles and Legal Compliance,” paragraph .112.)
 - i. Required disclosures about debt, including debt service requirements to maturity. (See Section 1500, paragraphs .129 and .130.)
 - j. Required disclosures about leases. (See Section L20, “Leases,” paragraphs .134–.136 and .154–.157.)
 - k. Construction and other significant commitments, including encumbrances, if appropriate. (See Section 1700, “The Budget and Budgetary Accounting,” paragraph .127c.)
 - l. Required disclosures about capital assets, including lease assets and subscription assets arising from subscription-based information technology arrangements. (See paragraphs .117–.119 and .121 of this section.)
 - m. Required disclosures about long-term liabilities. (See paragraphs .120 and .121 of this section.)
 - n. Deficit fund balance or net position of individual nonmajor funds.
 - o. Interfund balances and transfers. (See paragraphs .126 and .127 of this section.)
 - p. For each major component unit, the nature and amount of significant transactions with other discretely presented component units or with the primary government. (See Section 2600, paragraph .110.)
 - q. Disclosures about donor-restricted endowments. (See paragraph .123 of this section.)

(See paragraph .901 for suggested disclosure sequence.) [NCGAS 1, ¶158; NCGAI 6, ¶4 and ¶5, as amended; GASBS 34, ¶113, ¶114, ¶118, ¶120, and ¶123, as amended by GASBS 62, ¶4; GASBS 34, ¶115, as amended by GASBS 62, ¶4, GASBS 63, ¶8, and GASBS 84, ¶5; GASBS 34, ¶116, as amended by GASBS 62, ¶4, GASBS 63, ¶8, GASBS 87, ¶37, and GASBS 96, ¶60; GASBS 34, ¶117, as amended by GASBS 62, ¶4, GASBS 87, ¶37, and GASBS 96, ¶60; GASBS 34, ¶121 and ¶122, as amended by GASBS 62, ¶4 and GASBS 63, ¶8; GASBS 34, ¶119, as amended by GASBS 62, ¶4 and GASBS 88, ¶4; GASBS 38, ¶6, as amended by GASBS 84, ¶14–¶18; GASBS 38, ¶7, ¶9, ¶14, and ¶15; GASBS 38, ¶10, as amended by GASBS 88, ¶4 and ¶6; GASBS 54, ¶23 and, as amended by GASBS XX, ¶23; GASBS 54, ¶24; GASBS 56, ¶8–¶11, as amended by GASBS 63, ¶8; GASBS 56, ¶12–¶14; GASBS 62, ¶90–¶95, ¶106–¶109, ¶112, ¶113, and ¶201; GASBS 75, ¶47–¶56, ¶89–¶96, ¶127–¶133, ¶136, ¶142, ¶162–¶169, ¶185–¶190, ¶213–¶217, ¶220, ¶229, and ¶233; GASBS 85, ¶23] GASBS 38, ¶7 superseded by GASBS XX, ¶12

.107 The above notes to the financial statements are not all-inclusive, and additional disclosures should be made if applicable. For example, such additional disclosures may include the following.⁴ (See paragraph .901 for suggested disclosure sequence.)

- a. Entity risk management activities. (See Section C50, paragraphs .115, .145, .146, and .161–.164, and Section Po20, “Public Entity Risk Pools,” paragraph .146.)
- b. Property taxes. (See Section P70, “Property Taxes,” ~~paragraphs .104 and .108~~ paragraph .107.)
- c. Segment information for enterprise funds. (See Section 2500, “Segment Information.”)
- ~~d. Condensed financial statements for major discretely presented component units. (See Section 2600, paragraphs .108 and .109.)~~
- ~~e.d.~~ Short-term debt instruments and liquidity. (See paragraph .124 of this section.)
- ~~f.e.~~ Related-party transactions. (See Section 2250, paragraph .103.)
- ~~g.f.~~ The nature of the primary government’s accountability for related organizations. (See Section 2600, paragraph .129.)
- ~~h.g.~~ Joint ventures and jointly governed organizations. (See Section J50, “Accounting for Participation in Joint Ventures and Jointly Governed Organizations,” paragraphs .109–.111.)
- ~~i.h.~~ Debt extinguishment and troubled debt restructuring. (See Section D20, “Debt Extinguishments and Troubled Debt Restructuring,” paragraphs .114–.120, .124–.128, .147, .148, .162, and .163.)
- ~~j.i.~~ Nonexchange transactions, including grants, taxes, and contributions, that are not recognized because they are not measurable. (See Section N50, “Nonexchange Transactions,” paragraph .108.)
- ~~k.j.~~ Fund balance classification details. (See Section 1800, paragraph .183.)
- ~~l.k.~~ Interfund eliminations in fund financial statements not apparent from headings. (See Section 2200, footnote 5.)
- ~~m.l.~~ Pension plans—in both separately issued plan financial statements and employer statements. (See Sections Pe5, “Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit,” and Pe6, “Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Contribution”)
- ~~n.m.~~ Postemployment benefit plans other than pension plans—in both separately issued plan financial statements and employer statements. (See Sections Po50, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Benefit, and Po51, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria— Defined Contribution.”)

⁴~~Governments, except those that are not able to present budgetary comparisons because of perspective differences as discussed in paragraph .113 of Section 2400, may elect to report this budgetary comparison information in a budgetary comparison statement as part of the basic financial statements, rather than as RSI. If the budgetary comparison information is included in the basic statements, disclosures discussed in Section 2400, paragraph .103, should be included in the notes to the financial statements, rather than as RSI. [CASBS 34, fn53, as amended by CASBS 41, ¶13; CASBS 34, fn56]~~
superseded by GASB XX, ¶134

- o. Bond, tax, or revenue anticipation notes excluded from fund or current liabilities (proprietary funds). (See paragraph .116 of this section.)
- p. Nature and amount of inconsistencies in financial statements caused by transactions between component units having different fiscal year-ends or changes in component unit fiscal year-ends. (See Section 2600, paragraph .120.)
- q. In component unit separate reports, identification of the primary government in whose financial report the component unit is included and a description of its relationship to the primary government. (See Section 2600, paragraph .125.)
- r. Reverse repurchase and dollar reverse repurchase agreements. (See Section I55, "Investments—Reverse Repurchase Agreements," paragraphs .106–.114.)
- s. Securities lending transactions. (See Section I60, "Investments—Securities Lending," paragraphs .109–.114.)
- t. Special assessment debt and related activities. (See Section S40, "Special Assessments," paragraphs .126 and .127.)
- u. Demand bonds. (See Section D30, "Demand Bonds," paragraphs .111 and .112.)
- v. Certain asset retirement obligations. (See Section A10, "Certain Asset Retirement Obligations," paragraphs .124–.126.)
- w. Landfill closure and postclosure care. (See Section L10, "Landfill Closure and Postclosure Care Costs," paragraphs .115 and .116.)
- x. Pollution remediation obligations. (See Section P40, "Pollution Remediation Obligations," paragraphs .123 and .124.)
- y. On-behalf payments for fringe benefits and salaries. (See Section N50, paragraph .138, Section P20, paragraphs .145, .182, .212–.217, and .220, Section P21, paragraphs .115, .119, .120, and .122, Section P22, paragraphs .136, .158, .170, and .185, and Section P24, paragraphs .111, .114, .118, .119, and .121, Section P50, paragraphs .153, .196, .231–.237, and .240, Section P51, paragraphs .110, .113, .117, .118, and .120, and Section P52, paragraphs .138, .162, .189–.193, and .196, as applicable.)
- z. Entity involvement in conduit debt obligations. (See paragraphs .121–.123 of Section C65.)
- aa. Sponsoring government disclosures about external investment pools. (See Section In5, "Investment Pools (External)," paragraphs .103 and .141, as applicable.)
- bb. The amount of interest expense included in direct expenses in the government-wide statement of activities. (See Section 2200, paragraph ~~.134~~.135.)
- cc. ~~Significant transactions~~The program or other events that are either function or identifiable activity to which an unusual or infrequent but not item is related, if applicable, and whether that item was within the control of management. (See Section 2200, paragraphs ~~.144~~.145 and ~~.168~~.170.)
- dd. Nature of individual elements of a particular reconciling item, if obscured in the aggregated information in the summary reconciliation of the fund financial statements to the government-wide statements. (See Section 2200, paragraph ~~.160~~.161.)
- ee. Discounts and allowances that reduce gross revenues, when not reported on the face of the financial statements. (See Section 2200, footnote ~~444~~446.)

- ff. Disaggregation of receivable and payable balances. (See paragraph .125, of this section.)
- gg. Impairment losses, idle impaired capital assets, and insurance recoveries, when not otherwise apparent from the face of the financial statements. (See Section 1400, paragraphs .177, .180, and .181.)
- hh. The amount of the primary government's net position at the end of the reporting period that are restricted by enabling legislation. (See Section 2200, paragraph ~~.119~~.120.)
- ii. Termination benefits. (See Section T25, "Termination Benefits," paragraphs .114–.117.) jj. Future revenues that are pledged or sold. (See paragraphs .128 and .129 below.) kk. Derivative instruments. (See Section D40, "Derivative Instruments," paragraphs ~~.164–.175~~.169–.178.)
- ll. Conditions and events giving rise to substantial doubt about the government's ability to continue as a going concern. (See Section 2250, paragraph .120.)
- mm. Required disclosures about bankruptcies. (See Section Bn5, "Bankruptcies," paragraph .114.)
- nn. Stabilization arrangements. (See Section 1800, paragraph .186.)
- oo. Minimum fund balance policies. (See Section 1800, paragraph .187.)
- pp. Information about major special ~~revenue~~resources funds. (See Section 1300, paragraph .105.)
- qq. Changes in the manner of or basis for presenting corresponding items for two or more periods in comparative financial statements. (See Section 2200, ~~paragraph .205.~~
~~graph .202.~~)
- rr. Asset valuation allowances. (See Section 2200, paragraph .178.)
- ss. Short-term obligations. (See paragraph .116 of this section.)
- tt. Long-term construction-type contracts. (See Section C75, "Construction-Type Contracts— Long-Term," paragraph .103.)
- uu. Effects of prior-period adjustments on the change in net position of prior periods. (See Sections 2200, paragraph ~~.150~~.151, and 2250, paragraph .125.)
- vv. Accounting changes and error corrections. (See Section 2250, paragraphs .138, .148, .150, and .152.)
- ww. Investments in common stock. (See Section I50, paragraphs .145 and .160.)
- xx. Description of receivables and payables that represent contractual rights to receive money or contractual obligations to pay money on fixed or determinable dates, whether or not there is any stated provision for interest, including the effective interest rate and the face amount. (See Section I30, "Interest Costs— Imputation," paragraph .115.)
- yy. Nonmonetary transactions. (See Section N70, "Nonmonetary Transactions," paragraph .109.)
- zz. Foreign currency transactions. (See Section F70, "Foreign Currency Transactions," paragraphs .106 and .107.)
- aaa. Insurance enterprises. (See Section In3, "Insurance Enterprises," paragraph .139.)
- bbb. Lending and mortgage banking activities. (See Section L30, "Lending Activities," paragraphs .137 and .138.)
- ccc. Retail land sales operations. (See Section R30, "Real Estate," paragraph .151.)

- ddd. Research and development arrangements. (See Section R50, "Research and Development Arrangements," paragraph .111.)
- eee. Regulated business-type activities. (See Section Re10, "Regulated Operations," paragraphs .119, .120, and .126.)
- fff. Information about deferred outflows and deferred inflows of resources and the effect on net position. (See paragraph .130 and .131.)
- ggg. Public-private or public-public partnerships that either (a) meet the definition of a service concession arrangement or (b) do not meet the definition of a service concession arrangement and do not meet the definition of a lease. (See Section P90, "Public-Private and Public-Public Partnerships," paragraphs .131, .132, and .153–.155.)
- hhh. Subscription-based information technology arrangements. (See Section S80, "Subscription-Based Information Technology Arrangements," paragraphs .157 and .158.)
- ~~hhh~~iii. Nonexchange financial guarantees extended or received. (See Section N30, "Nonexchange Financial Guarantees," paragraphs .110–.113.)
- iii. Government combinations and disposals of government operations. (See Section Co10, "Combinations and Disposals of Operations," paragraphs .152–.155.)
- ~~iii-kkk~~. Fair value measurements. (See Section 3100, "Fair Value Measurement," paragraphs .161–.163.)
- ~~kkk-lll~~. Tax abatements. (See Section T10, "Tax Abatements.")

[NCGAI 6, ¶5, as amended; GASBS 34, ¶46, ~~¶56, ¶77, ¶89, and fn41~~; GASBS 34, ¶89, as amended by GASB XX, ¶10; GASBS 38, ¶13, as amended by GASBS 63, ¶8; GASBS 42, ¶17, as amended by GASBS 62, ¶45–¶49 and GASBS 63, ¶8; GASBS 46, ¶6, as amended by GASBS 63, ¶8; GASBS 54, ¶23–¶27 ~~and ¶32~~; GASBS 56, ¶4–¶7 and ¶16–¶19; GASBS 62, ¶33, ¶44, ¶50, ¶52, ¶75, ¶85; GASBS 54 ¶32, as amended by GASBS XX, ¶28; GASBS 56, ¶4–¶7 and ¶16–¶19; GASBS 62, ¶33, ¶44, ¶52, ¶75, ¶85, ¶87, ¶89, ¶116, ¶170, ¶171, ¶187, ¶210, ¶280, ¶330, ¶384, ¶429, ¶473, ¶474, ¶493, ¶494, and ¶500; GASBS 62, ¶50, as amended by GASBS XX, ¶9; GASB 62, ¶62, as amended by GASBS 63, ¶8; GASBS 63, ¶13 and ¶14; GASBS 69, ¶55–¶57; GASBS 69, ¶58, as amended by GASBS XX, ¶22 and ¶23; GASBS 70, ¶14–¶17; GASBS 72, ¶80–¶82; GASBS 74, ¶34 and ¶35; GASBS 77, ¶5, ¶6, ¶9, and ¶10; GASBS 77, ¶7 and ¶8, as amended by GASBS XX, ¶12; GASBS 94, ¶35, ¶36, and ¶57–¶59; GASBS 96, ¶60 and ¶61; GASBS XX, ¶10] GASBS 34, ¶56 superseded by GASBS XX, ¶10; GASBS 34, ¶127 superseded by GASBS XX, ¶28
~~¶87, ¶89, ¶116, ¶170, ¶171, ¶187, ¶210, ¶280, ¶330, ¶384, ¶429, ¶473, ¶474, ¶493, ¶494, and ¶500; GASB 62, ¶62, as amended by GASBS 63, ¶8; GASBS 63, ¶13 and ¶14; GASBS 69, ¶55–¶58; GASBS 70, ¶14–¶17; GASBS 72, ¶80–¶82; GASBS 74, ¶34 and ¶35; GASBS 77, ¶5–¶10~~

.108 The suggested areas to be considered for notes to the financial statements disclosures, as listed above, are neither all-inclusive nor intended to replace professional judgment in determining disclosure necessary for fair presentation in the circumstances. The notes to financial statements should not be cluttered with unnecessary and immaterial disclosures. Attendant circumstances and materiality must be considered in assessing the propriety of the notes to the financial statements disclosures. Notes to the financial statements provide necessary disclosure of material items, the omission of which would cause the financial statements to be misleading. (Paragraph .601 provides Technical Bulletin guidance

on disclosures about derivative instruments and similar debt and investment transactions.) [NCGAI 6, ¶6], as amended by GASBS 92, ¶13]

.109 Notes to the financial statements disclosures may be more informative when presented in a logical order. The outline presented in paragraph .901 is provided as guidance for the sequence of notes to the financial statements disclosures. This guidance should not be considered as supplanting the judgment of the issuer in determining the most meaningful method of presenting the necessary notes to the financial statements information. [NCGAI 6, ¶7]

Accounting Policies

.110 The accounting policies of a government are the specific accounting principles and the methods of applying those principles that are judged by the management of the government to be the most appropriate in the circumstances to present fairly financial position and changes in financial position in conformity with GAAP and that, accordingly, have been adopted for preparing the financial statements. [GASBS 62, ¶90]

.111 The accounting policies adopted by a government can affect significantly the presentation of its financial position and changes in financial position. Accordingly, the usefulness of financial statements for purposes of making economic decisions about the government depends significantly upon the user's understanding of the accounting policies followed by the government. [GASBS 62, ¶91]

.112 Information about the accounting policies adopted by a government is essential for financial statement users. When financial statements are issued purporting to present fairly financial position and changes in financial position in conformity with GAAP, a description of all significant accounting policies of the government should be included as an integral part of the financial statements. [GASBS 62, ¶92]

Content

.113 Disclosure of accounting policies should identify and describe the accounting principles followed by the government and the methods of applying those principles that affect the determination of financial position and changes in financial position. In general, the disclosure should encompass important judgments as to appropriateness of principles relating to recognition of revenue and allocation of asset costs to current and future periods; in particular, it should encompass those accounting principles and methods that involve any of the following:

- a. A selection from existing acceptable alternatives
- b. Principles and methods peculiar to the industry in which the government (for example, a special-purpose district) operates, even if such principles and methods are predominantly followed in that industry
- c. Unusual or innovative applications of GAAP (and, as applicable, of principles and methods peculiar to the industry in which the government operates).

[GASBS 62, ¶93]

.114 Financial statement disclosure of accounting policies should not duplicate details (for example, composition of inventories or of capital assets) presented elsewhere in the basic financial statements. In some cases, the disclosure of accounting policies should refer to related details presented elsewhere in the notes to the financial statements; for example, changes in accounting policies during the period should be

described with cross-reference to the disclosure required by paragraphs .128–.152 of Section 2250 of the current effect of the change and of the pro forma effect of retroactive application. [GASBS 62, ¶94]

.115 While a “Summary of Significant Accounting Policies” is required disclosure, it may be a stand-alone summary or may be included as the initial note to the financial statements. If it is a stand-alone summary, each page of the basic financial statements should be referenced thereto and also to the notes to financial statements. [NCGAI 6, ¶8, as amended by GASBS 34, ¶6]

.116 If a short-term obligation is excluded from current liabilities pursuant to the provisions of paragraphs .108–.122 of Section 1800, the notes to the financial statements should include a general description of the financing agreement and the terms of any new obligation incurred or expected to be incurred as a result of a refinancing. If an obligation under paragraph .113b of Section 1800 is classified as a long-term liability (or, in the case of an unclassified statement of net position, is included as a long-term liability in the disclosure of debt maturities), the circumstances should be disclosed. [GASB 62, ¶44, as amended by GASBS 63, ¶8]

Required Note Disclosures about Capital Assets and Long-Term Liabilities

.117 Governments should provide detail in the notes to the financial statements about capital assets and long-term liabilities of the primary government reported in the statement of net position. The information disclosed should be divided into major classes of capital assets, with separate presentation of totals for (a) lease assets and (b) subscription assets arising from subscription-based information technology arrangements, and major classes of long-term liabilities, as well as between those associated with governmental activities and those associated with business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated. (See Section 1400, paragraph .112.) [GASBS 34, ¶116, as amended by GASBS 63, ¶8, GASBS 87, ¶37, and GASBS 96, ¶60 and ¶61]

.118 Information presented about major classes of capital assets, with the total for lease assets and the total for subscription assets arising from subscription-based information technology arrangements, each presented separately, should include:

- a. Beginning- and end-of-year balances (regardless of whether beginning-of-year balances are presented on the face of the government-wide financial statements), with accumulated depreciation presented separately from historical cost
- b. Capital acquisitions
- c. Sales or other dispositions
- d. Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

[GASBS 34, ¶117, as amended by GASBS 87, ¶37 and GASBS 96, ¶60]

.119 For collections not capitalized (see Section 1400, paragraphs .109–.111), disclosures should provide a description of the collection and the reasons these assets are not capitalized. For collections that are capitalized, governments should make the disclosures required by paragraphs .117 and .118. [GASBS 34, ¶118]

.120 Information about long-term liabilities should include both long-term debt (such as bonds, notes, and loans) and other long-term ~~liabilities~~⁵ ~~liabilities~~³ (such as compensated absences, leases payables, and claims and judgments). Information presented about long-term liabilities should include:

- a. Beginning- and end-of-year balances (regardless of whether prior-year data are presented on the face of the government-wide financial statements)
- b. Increases and decreases (separately presented)
- c. The portions of each item that are due within one year of the statement date
- d. Which governmental funds typically have been used to liquidate other long-term liabilities (such as compensated absences and pension liabilities) in prior years.

[GASBS 34, ¶119, as amended by GASBS 88, ¶4]

.121 Determining whether to provide similar disclosures about capital assets and long-term liabilities of discretely presented component units is a matter of professional judgment. 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. [GASBS 34, ¶120]

.122 Narrative explanations of combining, individual fund, and component unit statements and schedules should provide information *not* included in the basic financial statements, notes to the financial statements, and schedules that is necessary (a) to assure an understanding of the combining and individual statements and schedules and (b) to demonstrate compliance with finance-related legal and contractual provisions. (In extreme cases, it may be necessary to prepare a separate legal-basis special report as discussed in Section 1200, paragraph .113.) The narrative explanations, including a description of the nature and purpose of the various funds, should be presented on divider pages, directly on the statements and schedules, or in a separate section. [NCGAS 1, ¶159, as amended by GASBS 14 and GASBS 34, ¶6, ¶80, and ¶82]

Disclosures about Donor-Restricted Endowments

.123 Note disclosures should include the following information about donor-restricted endowments:

⁵~~Information~~³~~Information~~ about pension and OPEB liabilities to employees should be reported in a separate pension or OPEB note, as required by Sections P20, P21, P22, P24, P50, P51, P52, and P54, as applicable. Payables to a defined benefit pension or defined benefit OPEB plan administered through a trust that meets the criteria in paragraph .101 of Section P20 or paragraph .101 of Section P50 should be disclosed with short-term or long-term liabilities, as appropriate, and governments also should apply the requirements of paragraph .226 or paragraph .230 of Section P20 or paragraph .246 or paragraph .253 of Section P50, as applicable. [GASBS 34, fn47, as amended by GASBS 68, ¶37–¶45, ¶74–¶80, ¶109–¶113, ¶116, and ¶122, GASBS 73, ¶38–¶44, ¶61–¶65, ¶77, ¶89–¶92, ¶95, ¶101, ¶105, ¶107, ¶111, and ¶114, GASBS 75, ¶47–¶56, ¶89–¶96, ¶127–¶133, ¶136, ¶142, ¶162–¶169, ¶185–¶190, ¶213–¶217, ¶220, ¶229, ¶233, ¶239, ¶240, and ¶242, GASBS 78, ¶8, and GASBS 85, ¶23]

- a. The amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for ~~expenditure~~^{use} by the governing board, and how those amounts are reported in net position
- b. The state law regarding the ability to spend net appreciation
- c. The policy for authorizing and spending investment income, such as a spending-rate or total-return policy.

[GASBS 34, ¶121, as amended by GASBS 63, ¶18 and GASBS XX, ¶127]

Required Note Disclosures about Short-Term Debt

.124 Governments should provide details in the notes to the financial statements about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. For this purpose, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is ~~fixed~~^{fixed}⁶ at the date the contractual obligation is established. For this purpose, debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, or accounts payable. A government should separate information in debt disclosures regarding direct borrowings and direct placements of debt from other debt. Short-term debt results from borrowings characterized by anticipation notes, use of lines of credit, and similar loans. Details should include:

- a. A schedule of changes in short-term debt, disclosing beginning- and end-of-year balances, increases, and decreases
- b. The purpose for which the short-term debt was

issued. [GASBS 38, ¶12, as amended by GASBS 88, ¶4

and ¶6] **Disaggregation of Receivable and Payable**

Balances

.125 Balances of receivables and payables reported on the statements of net position and short-term financial resources balance sheet may be aggregations of different components, such as balances due to or from taxpayers, other governments, vendors, customers, beneficiaries, and employees. Governments should provide details in the notes to the financial statements when significant components have been obscured by aggregation. Balances of receivables may also have different liquidity characteristics. Significant receivable balances not expected to be collected within one year of the date of the financial statements should be disclosed. Governments that report balances of payables related to liabilities to a defined benefit pension or defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section P20 or ~~para-~~

⁶~~For~~

⁴For purposes of this determination, interest to be accrued and subsequently paid (such as interest on variable-rate debt) or interest to be added to the principal amount of the obligation (such as interest on capital appreciation bonds) does not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established. [GASBS 88, fn1]

~~graph paragraph~~ .101 of Section P50, as applicable, also should disclose information required by paragraph .226 or paragraph .230 of Section P20 or paragraph .246 or paragraph .253 of Section P50, as applicable. [GASBS 38, ¶13, as amended by GASBS 63, ¶8, GASBS 68, ~~¶122~~, GASBS 75, ~~¶142~~, GASBS 78, ¶8, GASBS 85, ¶23, and GASBS XX, ¶11]
~~¶122, GASBS 75, ¶142, GASBS 78, ¶8, and GASBS 85, ¶23]~~

Interfund Balances and Transfers

.126 Governments should disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:

- a. Amounts due from other funds *by* individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and type of fiduciary fund
- b. The purpose for interfund balances
- c. Interfund balances that are not expected to be repaid within one year from the date of the financial statements.

[GASBS 38, ¶14, as amended by GASBS 84, ¶14–¶18]

.127 Governments should disclose in the notes to the financial statements the following details about interfund transfers reported in the fund financial statements:

- a. Amounts transferred from other funds *by* individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, and internal service funds in the aggregate
- b. A general description of the principal purposes of the government's interfund transfers
- c. The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
 - (1) Do not occur on a routine basis—for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant
 - (2) Are inconsistent with the activities of the fund making the transfer—for example, a transfer from a capital projects fund to the general fund.

[GASBS 38, ¶15, as amended by GASBS 84, ¶23]

Future Revenues That Are Pledged or Sold

.128 For purposes of the following disclosures,⁷⁵ pledged revenues are those specific revenues that have been formally committed to directly collateralize or secure debt of

⁷⁵The

⁵The disclosures in this paragraph are not required for legally separate entities that report as stand-alone business-type activities whose operations are financed primarily by a single major revenue source. [GASBS 48, fn5]

the pledging government, or directly or indirectly ~~collateralize~~⁸~~collateralize~~⁶ or secure debt of a component unit. For each period in which the secured debt remains outstanding, pledging governments should disclose, in the notes to financial statements, information about specific revenues pledged, including:

- a. Identification of the specific revenue pledged and the approximate amount of the pledge. Generally, the approximate amount of the pledge would be equal to the remaining principal and interest requirements of the secured debt.
- b. Identification of, and general purpose for, the debt secured by the pledged revenue
- c. The term of the commitment—that is, the period during which the revenue will not be available for other purposes
- d. The relationship of the pledged amount to the total for that specific revenue, if estimable—that is, the proportion of the specific revenue stream that has been pledged
- e. A comparison of the pledged revenues recognized during the period to the principal and interest requirements for the debt directly or indirectly collateralized by those revenues. For this disclosure, pledged revenues recognized during the period may be presented net of specified operating expenses, based on the provisions of the pledge agreement; however, the amounts should not be netted in the financial statements.

[GASBS 48, ¶121]

.129 In the year of the sale, governments that sell future revenue streams, as determined by applying the criteria in paragraph .105 of Section S20, should disclose in the notes to financial statements information about the specific revenues sold, including:

- a. Identification of the specific revenue sold, including the approximate amount, and the significant assumptions used in determining the approximate amount
- b. The period to which the sale applies
- c. The relationship of the sold amount to the total for that specific revenue, if estimable—that is, the proportion of the specific revenue stream that has been sold
- d. A comparison of the proceeds of the sale and the present value of the future revenues sold, including the significant assumptions used in determining the present value.

[GASBS 48, ¶122]

Deferred Outflows of Resources and Deferred Inflows of Resources

.130 Balances of deferred outflows of resources and deferred inflows of resources reported in a statement of net position or a ~~governmental fund~~⁸~~short-term financial resources~~ balance sheet may be aggregations of different types of deferred amounts. Governments should provide de-

⁸In an indirect collateralization, the pledged revenue agreement is not directly between the pledging government and the bondholders. That is, the pledging government's revenues do not secure the debt; rather, the debt is secured by its payments to the component unit that are financed by that revenue. In essence, the pledging government makes an annual debt service "grant" to the component unit, which, in turn, pledges that revenue as security for its debt. [GASBS 48, fn6]

~~tails~~details of the different types of deferred amounts in the notes to the financial statements if significant components of the total deferred amounts are obscured by aggregation. Disclosure in the notes to the financial statements is required only if the information is not displayed on the face of the financial statements. [GASBS 63, ¶13, as amended by GASB XX, ¶ 11]

.131 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. [GASBS 63, ¶14]

GASB IMPLEMENTATION GUIDES**.701 Introduction**

No questions assigned.

.702 Notes to Financial Statements

No questions assigned.

.703 Focus of the Reporting Entity's Note Disclosures and Required Supplementary Information

.703-1 Q—Should disclosures related to discretely presented component units be segregated from disclosures relating to the primary government?

A—Yes. Paragraph .104 of this section states, in part, that the notes “should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units.” This can be accomplished by presenting component unit information after the primary government information for each relevant disclosure or by presenting *all* component unit disclosures after the primary government disclosures.

[GASBIG 2015-1, Q4.39.6]

.703-2 Q—Paragraph .106a(1) of this section requires governments to provide a description of the government-wide statements in the summary of significant accounting policies. How does this disclosure differ from the requirement in paragraph ~~.109a.110a~~ of Section 2200 to include in MD&A ~~a brief discussion~~ a brief discussion or an overview of the basic financial statements?

A—The requirement for additional significant accounting policies disclosure in paragraph .106a(1) relates only to the government-wide statements and essentially calls for descriptive comments about the purposes and scope of the statements of net position and activities. For example, this disclosure could address:

- What are governmental and business-type activities
- The absence of fiduciary funds, including fiduciary component units
- What are the components of net position
- What are the key elements of the statement of activities.

The MD&A discussion ~~A discussion~~ required by paragraph ~~109a~~110a relates to *both* government-wide *and* fund statements and is oriented more toward the *relationship* of government-wide statements to fund financial statements.

[GASBIG 2015-1, Q7.84.1, as amended by GASBS 84, ¶5 and GASBS XX, ¶8]

.703-3 Q—Paragraph .106a of this section requires governments to provide additional disclosures, if applicable, in the summary of significant accounting policies. Paragraph .106a(65) deals with the policy for eliminating internal activity in the statement of activities. What is the policy that should be disclosed?

A—The disclosure is intended to give readers a *general* understanding of how internal activity is reported in the statement of activities. For example, the policy could explain that direct expenses (charges based on actual use) are not eliminated, whereas indirect expense allocations made in the funds are reversed (unless reported in the separate column). Similarly, the note could explain *generally* which internal payments are reported as program revenues and which ones reduce the expenses of the reimbursed programs.

[GASBIG 2015-1, Q7.84.2]

.703-4 Q—Paragraph .106a(1210) of this section requires disclosure of a government's policy regarding the use of restricted resources. What information should be included in this disclosure?

A—Governments are required to state their policy for *when* they use restricted resources. That is, do they spend restricted funds only when unrestricted amounts are insufficient or unavailable, or do they spend restricted funds first and use unrestricted resources when the restricted funds are depleted? Disclosure of this policy should help readers understand the significance of restricted and unrestricted net position relative to total net position.

[GASBIG 2015-1, Q7.84.3]

.703-5 Q—Paragraph .106a(87) of this section requires disclosure of a government's capitalization policy. What information should be included?

A—There are no specific requirements for capitalization policies. However, capitalization policies may include (a) capitalization thresholds, (b) the methods used for determining historical cost or acquisition value, and (c) the extent of infrastructure capitalization, including (for phase 1 and phase 2

governments) whether infrastructure acquired prior to June 30, 1980, is reported and (for phase 3 governments) whether infrastructure acquired prior to implementation of this section is reported.

[GASBIG 2016-1, Q4.64]

.703-6 Q—What disclosures should a phase 3 government that does not elect to retroactively report infrastructure make for infrastructure that is not included in the basic financial statements?

A—The requirements related to the selection of accounting policies and methods from existing acceptable alternatives in paragraph .113 of this section and the requirement in paragraph .106a(87) of this section to disclose the policy for capitalizing assets would apply. Phase 3 governments that do not elect to retroactively report infrastructure should include a statement in their summary of significant accounting policies on an ongoing basis, such as “General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements,” “General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003,” or other language that indicates how infrastructure was capitalized.

[GASBIG 2015-1, Q7.85.5]

.703-7 Q—Paragraph ~~.129a~~.124a of Section 1500 requires debt service requirements to be shown separately. Does the word *separately* refer to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, (c) the separate presentation of direct borrowings and direct placements of debt from other debt, or (d) separation of debt service requirements for each debt issue?

A—The word *separately* refers to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, and (c) the separate presentation of direct borrowings and direct placements of debt from other debt. Section 1500 does not require disclosure of debt service requirements for each debt issue.

[GASBIG 2015-1, Q7.85.7, as amended by GASBS 88, ¶6]

.704 Accounting Policies

No questions assigned.

.705 Content

No questions assigned.

.706 Required Note Disclosures about Capital Assets and Long-Term Liabilities

.706-1 Q—What are examples of major classes of capital assets?

A—Land, infrastructure, buildings and improvements, vehicles, machinery and equipment, construction in progress, and intangible assets are examples of major classes of capital assets.

[GASBIG 2015-1, Q7.85.2]

.706-2 Q—Paragraph .102 of this section indicates that disclosures generally should focus on the primary government—specifically, its governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate. Does that suggest that the detailed capital asset and long-term liability disclosures required by paragraph .117 of this section should be made for each major enterprise fund and for nonmajor enterprise funds in the aggregate?

A—No. The focus of the disclosure requirements in paragraph .117 is the government-wide statement of net position. The disclosures need only identify major classes of assets and liabilities for governmental activities in total and for business-type activities in total. This specific requirement does not apply to the fund financial statements.

[GASBIG 2015-1, Q7.85.3]

.706-3 Q—Paragraph .106a(87) of this section requires disclosure of a government's capitalization policy. What information should be included?

A—There are no specific requirements for capitalization policies. However, capitalization policies may include (a) capitalization thresholds, (b) the methods used for determining historical cost or acquisition value, and (c) the extent of infrastructure capitalization, including (for phase 1 and phase 2 governments) whether infrastructure acquired prior to June 30, 1980, is reported and (for phase 3 governments) whether infrastructure acquired prior to implementation of this section is reported.

[GASBIG 2016-1, Q4.64]

.706-4 Q—What disclosures should a phase 3 government that does not elect to retroactively report infrastructure make for infrastructure that is not included in the basic financial statements?

A—The requirements related to the selection of accounting policies and methods from existing acceptable alternatives in paragraph .113 of this section and the requirement in paragraph .106a(87) of this section to disclose the policy for capitalizing assets would apply. Phase 3 governments that do not elect to retroactively report infrastructure should include a statement in their summary of significant accounting policies on an ongoing basis, such as “General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements,” “General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003,” or other language that indicates how infrastructure was capitalized.

[GASBIG 2015-1, Q7.85.5]

.706-5 Q—Paragraph .120d of this section requires governments to disclose which governmental funds have been used in the past to liquidate certain long-term liabilities. If the government has decided to depart from the historical trend and uses other funds to liquidate those liabilities (for example, through a change in budgetary policy), should that fact also be disclosed?

A—Yes. The purpose of that disclosure is to provide readers additional information about future claims against financial resources to assist them in assessing the fund balances of specific funds. In this case, the past payment trends would not assist readers in making that assessment.

[GASBIG 2015-1, Q7.85.6]

.706-6 Q—Paragraph ~~.129a~~.124a of Section 1500 requires debt service requirements to be shown separately. Does the word *separately* refer to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, (c) the separate presentation of direct borrowings and direct placements of debt from other debt, or (d) separation of debt service requirements for each debt issue?

A—The word *separately* refers to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, and (c) the separate presentation of direct borrowings and direct placements of debt from other debt. Section 1500 does not require disclosure of debt service requirements for each debt issue.

[GASBIG 2015-1, Q7.85.7, as amended by GASBS 88, ¶6]

.706-7 Q—Should all intangible assets be included in a single major class of capital assets for purposes of financial statement note disclosures?

A—If the types of intangible assets reported by a government differ in nature and usage, then they should not be reported collectively as a single major class of capital assets. For example, the nature and usage of patents differs from that of right-of-way easements such that they should not be aggregated in the same major class of capital assets. However, multiple types of intangible assets that have a similar nature and usage could be combined to form a major class of capital asset. For example, water rights, mineral rights, and timber rights might be combined to form a land use rights major class of capital assets. Additionally, a single type of intangible asset, for example, water rights or computer software, may be considered a major class of capital assets depending on its significance to the government's total amount of capital assets.

[GASBIG 2015-1, QZ.51.29]

.706-8 Q—Paragraph .120 of this section requires disclosures about changes in long-term liabilities. As part of that requirement, should information be provided about the changes in deferred outflows of resources and deferred inflows of resources arising from debt refunding transactions?

A—No. Paragraph ~~.115~~116 of Section 2200 requires that deferred outflows of resources and deferred inflows of resources be presented in separate sections from assets and liabilities, respectively. Because the deferred amounts from refundings do not affect the carrying value of the refunding debt, the changes in the deferred outflows of resources or deferred inflows of resources do not represent changes in long-term liabilities and would not be included in the required disclosures.

[GASBIG 2015-1, QZ.65.1]

.707 Disclosures about Donor-Restricted Endowments

No questions assigned.

.708 Required Note Disclosures about Short-Term Debt

No questions assigned.

.709 Disaggregation of Receivable and Payable Balances

No questions assigned.

.710 Interfund Balances and Transfers

.710-1 Q—Amounts receivable from or payable to fiduciary funds are considered *interfund* balances in the fund financial statements, but are not reported as *internal* balances in the government-wide statement of net position. Are governments required to explain that difference in the notes to the financial statements?

A—No. Disclosure of the difference is not required, but governments may choose to include an explanation in the interfund balances note required by paragraph .126 of this section. Governments can also display, in the fund financial statements, amounts due to/from fiduciary funds separately from balances due to/from other funds, so that the relationship of *interfund* balances and *internal* balances is clear.

[GASBIG 2015-1, Q7.52.1]

.711 Future Revenues That Are Pledged or Sold

.711-1 Q—Footnote 75 of this section exempts certain legally separate entities that report as stand-alone business-type activities from the pledged revenue disclosure requirements in paragraph .128 of this section. Does that exemption apply to separately issued statements of component units?

A—No. The exemption provided for in footnote 75 applies to *stand-alone governments*. Paragraph .127 of Section 2600 states that stand-alone governments do not meet the definition of a component unit. Consequently, the disclosure requirements in paragraph .128 of this section apply to the separately issued financial statements of component units.

[GASBIG 2015-1, QZ.48.10]

.711-2 Q—A state college has a blended component unit that has bonds outstanding, the proceeds of which financed a facility rented by the college. The bonds are secured by rent payments from the college. In the separately issued financial statements of the component unit, are the pledged revenue disclosures in paragraph .128 of this section required?

A—Yes. The rent constitutes a *specific* future revenue of the component unit as stipulated in paragraph .101 of Section S20 and paragraph .128 of this section.

[GASBIG 2015-1, QZ.48.11]

.711-3 Q—Regarding the example in Question .711-2 in this section, are the pledged revenue disclosures required to be made in the state college’s financial statements, which include the blended component unit?

A—No. The *college* has not pledged a *specific* revenue to make the rent payments to the component unit that indirectly collateralize or secure the debt of the component unit.

[GASBIG 2015-1, QZ.48.12]

.711-4 Q—A tax increment financing district is created by a local municipality to redevelop a blighted area. The municipality issues bonds that will be repaid from the incremental taxes generated by the enhanced property values of the redeveloped area. Several other local taxing bodies, whose tax rates are also levied against the property in the district, agree to forgo their shares of the incremental taxes until the bonds are retired. Are those other local taxing bodies required to make the pledged revenue disclosures in paragraph .128 of this section?

A—No. In the situation described, only the municipality that issues the debt is required to make those disclosures. The incremental taxes of the other taxing bodies are not considered to be *pledged* revenues. Paragraph .128 requires disclosure about “specific revenues that have been formally committed to directly collateralize or secure debt of the pledging government, or directly or indirectly collateralize or secure debt of a component unit.” Because those taxing bodies did not issue the debt and because the municipality is not a component unit of any of those taxing bodies, the disclosures in paragraph .128 are not required to be made by those taxing bodies.

[GASBIG 2015-1, QZ.48.14]

.712 Deferred Outflows of Resources and Deferred Inflows of Resources

No questions assigned.

AICPA LITERATURE CLEARED BY THE GASB**Commitments**

.801 [Commitments are] existing arrangements to enter into future transactions or events, such as long-term contractual obligations with suppliers for future purchases at specified prices and sometimes at specified quantities. [AICPA SLG 2002, ¶8.82]

~~General Fund or Major Special Revenue Fund Budgets Not Legally Required~~

~~.802 If the government chooses to present its required budgetary comparison information in the basic financial statements, [disclosure that a budget is not adopted for the general fund or a major special revenue fund because it is not legally required and, therefore, presentation of budgetary comparison information is not required] should be made in the notes to the financial statements [to explain why what might appear to be required information is not part of the presentation]. [AICPA SLG 2002, ¶11.16 and ¶14.56, fn19]
superseded by GASBS XX, ¶133~~

BUDGETARY REPORTING

SECTION 2400

Sources: NCGAS 1, NCGAI 6, NCGAI 10, GASBS 34, GASBS 37, GASBS 41,
GASBS XX, GASBIG 2015-1, AICPA SLG 2002

See also: Section 1700, "The Budget and Budgetary Accounting"
Section 1800, "Classification and Terminology"
Section 2900, "Interim Financial Reporting"

~~[Note: This section presents the requirements for reporting of budgetary comparison schedules as required supplementary information (RSI). Governments, except those that are not able to present budgetary comparisons because of perspective differences as discussed in paragraph .113 of this section, may elect to report this budgetary comparison information in a budgetary comparison statement as part of the basic financial statements, rather than as RSI. If the budgetary comparison information is included in the basic statements, disclosures discussed in this section should be in the notes to the financial statements rather than as notes to RSI.] Deleted per GASB XX, ¶ 34~~

Statement of Principle Budgetary Reporting

Budgetary comparisons should be presented for the general fund and for each major special ~~revenue~~resources fund that has a legally adopted annual budget. Governments are ~~encouraged~~required to present such budgetary comparison information in schedules as a part of required supplementary information (RSI). However, a government with significant budgetary perspective differences that result in the government's not being able to present budgetary comparisons for the general fund and each major special ~~revenue~~resources fund is required to present budgetary comparison schedules as RSI based on the fund, organization, or program structure that the government uses for its legally adopted budget. [GASBS 34, ¶130, as amended by GASBS 41, ¶3 and GASBS XX, ¶28 and ¶34; GASBS XX, ¶34]

Scope of This Section

.101 State constitutions, statutes, political subdivisions, charters, and local ordinances assign the responsibility of the budgeting process and establish budgetary authority. The scope and method of state and local government budgetary practices

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are outside the scope of financial reporting standards. However, financial reporting guidance for budgetary comparisons is within that scope. [NCGAI 10, ¶16]

Required Budgetary Comparison Schedules

.102 Budgetary ~~comparisons~~ comparison schedules should be presented as RSI for the general fund and for each major special ~~revenue~~ resources fund that has a legally adopted annual budget. ~~Governments are encouraged to present such budgetary comparison information in schedules as a part of RSI.¹~~ However, a government with significant budgetary perspective differences that result in the government's not being able to present budgetary comparisons for the general fund and each major special ~~revenue~~ resources fund is required to present budgetary comparison schedules as RSI based on the fund, organization, or program structure that the government uses for its legally adopted budget.²¹ The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government's budgetary basis.³² ~~A separate column to report the variance between the final budget and actual amounts is encouraged but not required. Governments may also report the variance between original and final budget amounts.²~~ Separate columns for the variances between (a) original and final budget amounts and (b) final budget amounts and actual budget results are required to be presented. An analysis of significant variations between original and final budget amounts and final budget amounts and actual budget results also is required to be presented in notes to RSI. The analysis should include any currently known reasons for those variations that are expected to have a significant effect on budgetary fund balance or to produce significant differences from current period budgetary results.

- a. The *original budget* is the first complete appropriated budget.⁴³ The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances.
- b. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

[GASBS 34, ¶130, as amended by GASBS 41, ¶3 and GASBS XX, ¶128 and ¶134;
GASBS XX, ¶134]

¹~~Governments, except those that are not able to present budgetary comparisons because of perspective differences as discussed in paragraph .113 of this section, may elect to report this budgetary comparison information in a budgetary comparison statement as part of the basic financial statements, rather than as RSI. If presented, the additional statement and related disclosures should include the same items of information that this paragraph and paragraph .103 require to be displayed or disclosed. [GASBS 34, fn53, as amended by GASBS 41, ¶3] superseded by GASBS XX, ¶134~~

²¹These governments generally should present budgetary comparisons for the activities that are reported in the general fund and each major special ~~revenue~~ resources fund. [GASBS 41, ¶13, as amended by GASBS XX, ¶128]

³²The budgetary basis of accounting is discussed in Section 1700, paragraphs .115-.117 and .120-.123. [GASBS 34, fn54]

⁴³Paragraph .108 defines *appropriated budget* as "the ~~expenditure~~ budgetary outflows of resources authority created by the appropriation bills or ordinances which are signed into law and related estimated ~~revenues~~ budgetary inflows of resources." [GASBS 34, fn55, as amended by GASBS XX, ¶127]

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.103 Governments may present the budgetary comparison schedule using the same format, terminology, and classifications as the budget document, or using the format, terminology, and classifications in a statement of ~~revenues, expenditures, and changes in fund balances, short-term financial resource flows~~. Regardless of the format used, the schedule should be accompanied by information (either in a separate schedule or in notes to RSI) that reconciles budgetary information to GAAP information, as discussed in this section and in Section 1700. Notes to RSI should disclose the budgetary basis of accounting and excesses of ~~expenditures~~ outflows of budgetary resources over appropriations in individual funds presented in the budgetary comparison, ~~as discussed in Section 2300, "Notes to Financial Statements," paragraph 106.⁵ [NCGAI 6, ¶15; GASBS 34, ¶131, as amended by GASBS 37, ¶19 and GASBS XX, ¶11 and ¶27; GASBS 37, ¶19, as amended by GASBS XX, ¶27]~~

.104 Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary. [NCGAS 1, ¶12]

Comprehensive Annual Financial Reports

.105 The comprehensive annual financial report (CAFR) should include budgetary comparison schedules for individual nonmajor special ~~revenue~~ resources funds and other governmental funds of the primary government (including its blended component units). [NCGAS 1, ¶139 and ¶155, as amended by GASBS 14, ~~and~~ GASBS 34, ¶130, ~~and~~ GASBS XX, ¶28]

Interim Reporting

.106 Appropriate interim budgetary reports should be prepared in accordance with Section 2900 during the fiscal period to facilitate management control and legislative oversight of governmental fund financial operations. Such reports are important both to ~~revenue~~ budgetary inflows of resources and ~~expenditure~~ budgetary outflows of resources control processes and to facilitate timely planning and budgetary revisions. [NCGAS 1, ¶93, as amended by GASBS XX, ¶27]

Levels of Budgets

.107 The three possible levels of budgetary control and authority to which organizations, programs, activities, and functions may be subject are:

- a. "Appropriated budget"; or
- b. Legally authorized "nonappropriated budget" review and approval process, which is outside the "appropriated budget" process; or

⁵~~If the budgetary comparison information is included in the basic statements, as described in footnote 1, these disclosures should be in the notes to the financial statements, rather than as notes to RSI. [GASBS 34, ¶156], superseded by GASB XX, ¶134~~

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- c. Nonbudgeted financial activities, which are not subject to “appropriated budget” and the appropriation process or to any legally authorized “nonappropriated budget” review and approval process, but still are relevant for sound financial management and oversight.

[NCGAI 10, ¶10]

.108 The following definitions are applicable for the purposes of financial statement budgetary comparisons presented in RSI:

- a. *Executive Budget*. The aggregate of information, proposals, and estimates prepared and submitted to the legislative body by the chief executive and the budget office.
- b. *Appropriated Budget*. ~~The expenditure~~ The budgetary outflows of resources authority created by the appropriation bills or ordinances that are signed into law and related estimated ~~revenues~~ budgetary inflows of resources. The appropriated budget would include all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes. They include both *original* and *final* appropriated budgets, as defined in paragraph .102.
- c. *Nonappropriated Budget*. A financial plan for an organization, program, activity, or function approved in a manner authorized by constitution, charter, statute, or ordinance but not subject to appropriation and therefore outside the boundaries of the definition of “appropriated budget.”
- d. *Budgetary Execution and Management*. All other suballocations, contingency reserves, recisions, deferrals, transfers, conversions of language appropriations, encumbrance controls, and allotments established by the executive branch, without formal legislative enactment. These transactions may be relevant for various accounting control and internal reporting purposes, but are not part of the appropriated budget.

[NCGAI 10, ¶11, as amended by GASBS XX, ¶127; GASBS 34, ¶16 and; GASBS 34, ¶130, as amended by GASBS XX, ¶134]

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Budget–GAAP Reconciliations

.109 Budgetary comparison schedules should be accompanied by information (either in a separate schedule or in notes to RSI) that reconciles budgetary information to GAAP information.⁶ Basis, timing, perspective, and entity differences may exist between the GAAP reporting model and actual governmental budgetary practices. [NCGAI 10, ¶15; GASBS 34, ¶131]

Basis Differences

.110 Basis differences arise through the use of a basis of accounting for budgetary purposes that differs from the measurement focus and basis of accounting applicable to the fund type when reporting on the operations in accordance with GAAP. [NCGAI 10, ¶16, as amended by GASBS XX, ¶12 and fn10]

.111 These differences become more complex with the implementation of Section 2100, “Defining the Financial Reporting Entity.” Section 2100 criteria require certain component units to be included within the primary government. A basis difference arises in these circumstances if the blended component unit uses a different basis of accounting in budgeting than the primary government. [NCGAI 10, ¶17, as amended by GASBS 14, ¶52]

Timing Differences

.112 Timing differences that can result in significant variances between budgetary practices and GAAP may include continuing appropriations, project appropriations, automatic reappropriations, and biennial budgeting. [NCGAI 10, ¶18]

Perspective Differences

.113 Perspective differences result from the structure of financial information for budgetary purposes. The perspectives used for budgetary purposes include fund structure, organizational structure, or program structure. Additionally, some subsidiary perspective, such as nature of ~~revenue~~ the source of inflows of resources, special projects, or capital and operating budgets, may also be used. [NCGAI 10, ¶19, as amended by GASBS XX, ¶127]

.114 The fund structure and individual fund definitions establish which assets, liabilities, equities, and ~~revenue and expenditure/expense flows~~ inflows of resources and outflows of resources are accounted for in a fund. In the traditional view, budgeting, accounting, financial reporting, and auditing would follow the fund perspective. [NCGAI 10, ¶20, as amended by GASBS XX, ¶127]

⁶~~If the budgetary comparison information is included in the basic statements, as described in footnote 1, these disclosures should be in the notes to the financial statements, rather than as notes to RSI. [GASBS 34, fn56]~~ Superseded by GASBS XX, ¶34

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.115 Organization structure is the perspective of a government that follows from the formal, usually statutory, patterns of authority and responsibility granted to actually carry out the functions of the government. In this perspective, the structure of the organization and superior-subordinate relationships of commissioners, directors, and so forth, that govern the operations of the executive branch of government is dominant. [NCGAI 10, ¶21]

.116 A program structure is defined as the grouping of the activities, assignments of personnel, uses of ~~expenditure~~ budgetary outflows of resources authority, facilities, and equipment—all intended to achieve a common purpose. Such a perspective will typically differ from that of either the organizational structure or the fund structure perspective. [NCGAI 10, ¶22, as amended by GASBS XX, ¶27]

Entity Differences

.117 Entity differences are the fourth possible type of difference. An “appropriated budget” may include organizations, programs, activities, and functions that are not reported as part of the primary government as defined in Section 2100. [NCGAI 10, ¶23, as amended by GASBS 14, ¶56]

.118 Subsidiary to overall difficulties arising from differences between the “appropriated budget” entity and the reporting entity is the issue of a “nonappropriated budget.” Resource uses by organizations under a legally authorized “nonappropriated budget” outside “appropriated budget” may fall within the primary government. [NCGAI 10, ¶24, as amended by GASBS 14, ¶56]

.119 Differences between the government jurisdiction’s budget practices and GAAP not otherwise reconciled in a separate schedule on the face of the budgetary comparison schedule or accompanying that schedule attributable to basis, timing, perspective, and entity differences should be reconciled in the accompanying notes to RSI. [NCGAI 10, ¶25, as amended by GASBS 34, ¶131]

Additional Reporting

.120 More comprehensive budget presentations are generally to be preferred over the minimum standards. This section does not preclude the presentation of appropriated nonmajor special ~~revenue~~ resources fund, other governmental fund, proprietary, or trust fund budgets; a “nonappropriated budget”; and other disclosures as supplementary information that provides a more comprehensive presentation of the budgetary reporting activity. Further, for budgetary reporting purposes it is desirable to provide disclosure in the accompanying notes of the degree to which the reporting entity’s financial operations are subject to a comprehensive “appropriated budget,” “nonappropriated budget,” or are nonbudgeted financial activities. [NCGAI 10, ¶13, as amended by GASBS 34, ¶6, ¶130, and ¶131 and GASBS XX, ¶28]

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.121 State and local governments often adopt multiple appropriation bills and ordinances. Further, such appropriations may have varying levels of budgetary control (for example, departments, programs, or object). Individual fund budgetary comparisons are required to be presented at the legal level of budgetary control. If, for the funds or activities for which budgetary comparisons are required, the government presents budgetary comparisons at the legal level of control as supplementary information (for example, in a CAFR) or in a separate budgetary report that is referred to from the notes to RSI, the presentation of required budgetary comparison information in RSI may be made at a level that aggregates budgetary accounts through ~~revenue~~budgetary inflows of resources “source” and ~~expenditure~~budgetary outflows of resources “function” or “program.” In addition, the CAFR must contain individual nonmajor special ~~revenue~~resources and other governmental fund budgetary comparison schedules with detailed account classifications for governmental funds with annual “appropriated budgets.”⁷ [NCGAI 10, ¶14, as amended by GASBS 34, ¶6, ¶130, and ¶131 and GASBS XX, ¶27 and ¶28]

⁷If the budgetary comparison information is included in the basic statements, as described in footnote 1, these disclosures should be in the notes to the financial statements, rather than as notes to RSI. [GASBS 34, fn56] superseded by GASB XX, ¶34

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GASB IMPLEMENTATION GUIDES

.701 Scope of This Section

No questions assigned.

.702 Required Budgetary Comparison Schedules

.702-1 Q—What is the minimum level at which budgetary compliance should be reported?

A—The minimum reporting level for budget-to-actual comparisons, which are required by paragraph .102 of this section for the general fund and major special revenue resources funds that have legally adopted annual budgets, is established in this section. Paragraph .121 of this section requires disclosure presentation “at the level of budgetary control” (except in extreme cases when separate reports are required).

[GASBIG 2015-1, Q7.91.1, as amended by GASBS XX, ¶128 and ¶134]

.702-2 Q—If a special revenue resources fund that has a legally adopted budget does not meet the percentage criteria in paragraphs ~~.159a~~.160a and ~~.159b~~.160b of Section 2200, “Comprehensive Annual Financial Report,” but is nevertheless reported as a major fund because the government’s officials believe it is particularly important to financial statement users (for example, because of public interest or consistency), is a budgetary comparison schedule required for that “major” special revenue resources fund?

A—Yes. The extended use of major fund reporting as set forth at the end of paragraph ~~.159~~.160 allows governments to report any (governmental or enterprise) fund as a major fund. If a fund is voluntarily reported as a major fund, all of the major fund reporting requirements (including budgetary comparison schedules, if applicable) should be met.

[GASBIG 2015-1, Q7.91.2, as amended by GASBS XX, ¶128]

.702-3 Q—Should governments that issue the full financial section of a CAFR, including budgetary comparisons for debt service, capital projects, nonmajor special revenue resources funds, and other funds that have legally adopted budgets, apply the provisions of paragraphs .102 and .103 of this section to those additional comparisons?

A—Section 2200 establishes standards for the basic financial statements, MD&A, and certain RSI other than MD&A. It does not prescribe requirements for the data presented as supplementary information—combining and

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individual fund statements and statistical information, for example. Governments that present additional budgetary comparisons as supplementary information may choose to, but are not required to, present that information in accordance with the provisions of paragraphs .102 and .103.

[GASBIG 2015-1, Q7.91.3, as amended by GASBS XX, ¶128 and ¶134]

.702-4 Q—A local government has a fund that is included in its annual budget as a special ~~revenue~~resources fund. However, the fund is required to be reported as an enterprise fund, based on the criteria in paragraph .109 of Section 1300, “Fund Accounting.” The fund meets the major fund criteria. Should that fund be included in the RSI budget-to-actual comparison as a major ~~special revenue~~resources fund?

A—No. The RSI budget-to-actual comparison is based on the major special ~~revenue~~resources funds as presented in the fund financial statements. Although the fund is treated as a special ~~revenue~~resources fund for internal accounting purposes, it is required to be reported as an enterprise fund in the external financial statements. ~~(See Question .702-12 in this section about perspective differences.)~~

[GASBIG 2015-1, Q7.91.4, as amended by GASBS XX, ¶128 and ¶134]

.702-5 Q—~~A government presents its budgetary comparison in a schedule as RSI.~~ Can a budget-to-actual comparison for a *nonmajor* special ~~revenue~~resources fund be included in ~~that the budgetary comparison~~ schedule?

A—No. By definition, the information presented in RSI is limited to that which is *required*. Paragraph .102 of this section sets the scope of the budgetary comparison as the general fund and major special ~~revenue~~resources funds. Therefore, because the budgetary comparison schedule can only include major special ~~revenue~~resources funds that have legally adopted budgets, *any special ~~revenue~~resources fund presented is a major fund*, regardless of whether it otherwise would be required to be reported as a major fund pursuant to the percentage criteria in paragraph ~~.159~~160 of Section 2200. Thus, the consequence of presenting additional special ~~revenue~~resources funds in the budgetary comparison schedule is that those funds are subject to all major fund reporting requirements and are, therefore, not considered nonmajor.

[GASBIG 2015-1, Q7.91.5, as amended by GASBS XX, ¶128 and ¶134]

.702-6 Q—~~A government presents its budgetary comparison in a schedule as RSI.~~ ~~.702-6 Q—~~Can budget-to-actual comparisons for capital projects and debt service funds be included in ~~that the budgetary comparison~~ schedule?

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A—No. Paragraph .102 of this section clearly limits the comparison to special ~~revenue~~resources funds with legally adopted annual budgets—specifically those that are deemed to be “major.” (See Question .702-5 in this section.) Including capital projects funds and debt service funds in the budgetary comparison schedule would be in conflict with the limitations of that requirement.

[GASBIG 2015-1, Q7.91.6, as amended by GASBS XX, ¶128 and ¶134]

~~.702-7 Q—Can a government present some of its required budgetary comparison information (for the general fund, for example) in the basic statements (as provided for in footnote 1 of this section) and the remainder in schedules as RSI?~~

~~A—No. The required budgetary comparison information for the general fund and each major special revenue fund that has a legally adopted budget should be reported together.~~

~~[GASBIG 2015-1, Q7.91.7] superseded by GASBS XX, ¶134~~

~~.702-8 Q—If a government chooses to present its required budgetary comparisons in the basic statements, where should they be located?~~

~~A—Budgetary comparison statements for governmental funds should be reported with the fund financial statements after the statement of revenues, expenditures, and changes in fund balances.~~

~~[GASBIG 2015-1, Q7.91.8] superseded by GASBS XX, ¶134~~

~~.702-9] Q—What format should governments use for presentation of the budgetary comparison?~~

A—Paragraph .103 of this section states that governments may use the format, terminology, and classifications used in the underlying budget documents or those used in the governmental funds’ statement of ~~revenues, expenditures, and changes in fund balances~~short-term financial resource flows. Both formats are allowed, and neither is preferred over the other. Examples using a budget document format are presented in Exhibits 12 and 13 in nonauthoritative paragraph .902, and an example of the governmental statement of ~~revenues, expenditures, and changes in fund balances~~short-term financial resource flows format is presented in Exhibit 13 in nonauthoritative paragraph .905.

[GASBIG 2015-1, Q7.91.9, as amended by GASBS XX, ¶11 and ¶127]

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~~.702-108~~ Q—The requirement in paragraph .102 of this section for reporting budgetary comparison schedules refers to “legally adopted annual budgets.” Are governments that budget on a biennial basis *exempt* from this requirement?

A—No. The budgetary comparison reporting requirements also apply to governments with biennial budgets. Paragraph .112 of this section includes biennial budgets as an example of timing differences.

[GASBIG 2015-1, Q7.91.10, as amended by GASBS XX, ¶134]

~~.702-119~~ Q—Budgeted ~~revenue~~inflows of resources forecasts are provided by a state’s legislative budget office for use in determining ~~expenditure~~budgetary outflows of resources levels for all legislatively appropriated funds. Those estimated ~~revenues~~budgetary inflows of resources, however, are not contained in the appropriations bill and thus are not “legally adopted.” Should the state report those ~~revenue~~budgetary inflows of resources estimates as *budgeted* ~~revenues~~inflows of resources in the budget-to-actual comparison?

A—Yes. The estimated ~~revenues~~budgetary inflows of resources should be included in the budgetary comparison as budgeted ~~revenues~~inflows of resources. Paragraph .102 of this section requires that actual results be compared with amounts in the “appropriated budget.” Paragraph .108 of this section, which is referenced in footnote 4 of this section, states that the appropriated budget is defined as “the ~~expenditure~~budgetary outflows of resources authority created by the appropriation bills or ordinances which are signed into law and related estimated ~~revenues~~budgetary inflows of resources.” The reference to estimated ~~revenues~~budgetary inflows of resources after the mention of the legal adoption of the appropriations bill implies that the ~~revenue~~budgetary inflows of resources estimates need not be “legally adopted.”

[GASBIG 2015-1, Q7.91.11, as amended by GASBS XX, ¶127 and ¶134]

~~.702-12~~ Q—If a government has a perspective difference between its budgetary practices and the GAAP financial reporting model, is it *required* to present its budgetary comparison as RSI?

A—Only in certain limited circumstances are governments *required* to present their budgetary comparisons as RSI. Footnote 2 of this section stipulates that the basic statement option is not available to governments with perspective differences that are so significant that they *are not able* to present budgetary comparisons for the general and major special revenue funds. Most perspective differences, as discussed in paragraphs .113–.116 of this section, do not render a government *unable* to present the required comparisons. However, as discussed in paragraph 8 in the Basis for Conclusions section of Statement No. 41, *Budgetary Comparison Schedules—Perspective Differences*, some governments have budgetary structures that prevent them from associating the estimated revenues and appropriations

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~~from their legally adopted budget to the major revenue sources and functional expenditures that they report in their general fund and major special revenue funds.~~

~~[GASBIG 2015-1, Q7.91.12]~~ superseded by GASBS XX, ¶134

~~.702-1310~~ Q—Paragraph .102 of this section states that a budgetary comparison is required for “the general fund and for each major special ~~revenue~~ resources fund that has a legally adopted annual budget.” Does the *legally adopted* requirement apply to the general fund or only to the major special ~~revenue~~ resources funds?

A—The *legally adopted* requirement applies to the general fund as well as the major special ~~revenue~~ resources funds. For example, if a special-purpose government maintains a general fund (or its equivalent) but is not legally required to adopt or does not legally adopt a budget, a budgetary comparison schedule should not be presented ~~in the basic statements or as RSI.~~ (See also Questions .702-5 and .702-6 in this section.)

[GASBIG 2015-1, Q7.91.13, as amended by GASBS XX, ¶128 and ¶134]

~~.702-1411~~ Q—Does *legally adopted* mean that a government is required by law to adopt a budget, or does it mean that the governing body officially adopts a budget that has legal standing?

A—*Legally adopted*, as used in paragraph .102 of this section, refers to the notion that the government has no legal authority to spend resources until the budget is adopted. The intent of the legally adopted reference is that the budget (or appropriation ordinance, etc.) provides legal authority to spend resources. A government may formally adopt an operating budget, but if they have the legal authority to spend resources without it, it does not constitute a legally adopted budget as contemplated in the standards.

[GASBIG 2015-1, Q7.91.14, as amended by GASBS XX, ¶134]

~~.702-1512~~ Q—Some governments begin a fiscal year using interim budgets that cover a short period (for example, three months) and serve as temporary spending authority. Should an interim budget be considered the “original” budget?

A—No. The original budget should be the first budget that covers the entire fiscal period.

[GASBIG 2015-1, Q7.92.1]

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~~.702-1613~~ Q—Should the automatic carryover of encumbrances be included as part of the original budget even though the exact amount of the encumbrances may not be known at the time the budget is adopted?

A—Yes. Paragraph .102a of this section states that the original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances. In essence, the adopted budget includes a provision to cover prior-year encumbrances in whatever amounts they may be. The amounts will likely be known (or can be reasonably estimated) by the time the financial statements are issued after the year-end.

[GASBIG 2015-1, Q7.92.2]

~~.702-1714~~ Q—Does the final budget include amendments made to the budget (transfers of appropriations between line items, for example) *after* the fiscal year ends?

A—Yes. Paragraph .102b of this section states that the final budget should incorporate amendments regardless of when signed into law or otherwise legally authorized.

[GASBIG 2015-1, Q7.92.3]

~~.702-1815~~ Q—Paragraph .103 of this section requires disclosure in notes to RSI of excesses of ~~expenditures~~ budgetary outflows of resources over appropriations in the general fund and each major special ~~revenue~~ resources fund that has a legally adopted annual budget. Is disclosure in notes to RSI required for similar excesses in other governmental funds?

~~A—Disclosure may be required. Paragraph~~ No. However, paragraph .106h of Section 2300 requires disclosure in the notes to the financial statements of significant violations of finance-related legal and contractual provisions in notes to the basic financial statements. Therefore, disclosure in notes to the basic financial statements of the excess of ~~expenditures~~ budgetary outflows of resources over appropriations is required for *any* fund, including nonmajor special ~~revenue~~ resources funds, capital projects funds, or debt service funds, *if the overexpenditure coverage constitutes a significant violation of finance-related legal and contractual provisions*. In addition, paragraph .112 of Section 1200, “Generally Accepted Accounting Principles and Legal Compliance,” ~~106h~~ requires governments to disclose in notes to financial statements actions taken to address such violations.

[GASBIG 2015-1, Q7.93.1, as amended by GASBS XX, ¶ 27, ¶ 28 and ¶ 34]

~~.702-1916~~ Q—~~If the budgetary comparison information is presented as RSI,~~ ~~should~~ Should material violations of budgetary spending limitations (excess of ~~expenditures~~ budgetary outflows of resources over appropriations) be disclosed in notes to RSI?

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A—Paragraph .103 of this section states that notes to RSI should disclose excesses of ~~expenditures~~ budgetary outflows of resources over appropriations in individual funds presented in the budgetary comparison. In addition, if the excess is considered to be a significant violation of finance-related legal provisions, a disclosure in the notes to the basic financial statements is required. (See also Question .702-~~1815~~ in this section.)

[GASBIG 2015-1, Q7.93.2, as amended by GASBS XX, ¶27 and ¶34]

.703 Comprehensive Annual Financial Reports

No questions assigned.

.704 Interim Reporting

No questions assigned.

.705 Levels of Budgets

No questions assigned.

.706 Budget–GAAP Reconciliations

No questions assigned.

.707 Basis Differences

No questions assigned.

.708 Timing Differences

No questions assigned.

.709 Perspective Differences

~~.709-1 Q—If a government has a perspective difference between its budgetary practices and the GAAP financial reporting model, is it required to present its budgetary comparison as RSI?~~

~~A—Only in certain limited circumstances are governments required to present their budgetary comparisons as RSI. Footnote 2 of this section stipulates that the basic statement option is not available to governments with perspective differences that are so significant that they are not able to present budgetary comparisons for the general and major special revenue funds. Most perspective differences, as discussed in paragraphs .113–.116 of this~~

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~~section, do not render a government unable to present the required comparisons. However, as discussed in paragraph 8 in the Basis for Conclusions section of Statement 41, some governments have budgetary structures that prevent them from associating the estimated revenues and appropriations from their legally adopted budget to the major revenue sources and functional expenditures that they report in their general fund and major special revenue funds.~~

~~[GASBIG 2015-1, Q7.91.12] superseded by GASB XX, ¶134~~

.710 Entity Differences

No questions assigned.

.711 Additional Reporting

.711-1 Q—Can budgetary data for a discretely presented component unit be presented in the reporting entity’s budget-to-actual comparison ~~as in RSI or in the basic financial statements?~~

A—No. Paragraph .102 of this section clearly limits the comparison to the primary government’s general fund and major special ~~revenue~~resources funds with legally adopted annual budgets. Including data for discretely presented component units in the budgetary comparison schedule would be in conflict with the limitations of that requirement. Budgetary comparisons for discretely presented component units, however, can be presented as supplementary information.

~~[GASBIG 2015-1, Q4.36.1, as amended by GASBS XX, ¶128 and ¶134]~~

.711-2 Q—What is the minimum level at which budgetary compliance should be reported?

A—The minimum reporting level for budget-to-actual comparisons, which are required by paragraph .102 of this section for the general fund and major special ~~revenue~~resources funds that have legally adopted annual budgets, is established in this section. Paragraph .121 of this section requires ~~disclosure~~presentation “at the level of budgetary control” (except in extreme cases when separate reports are required).

~~[GASBIG 2015-1, Q7.91.1, as amended by GASBS XX, ¶128 and ¶134]~~

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General Fund or Major Special Revenue Fund Budgets Not Legally Required

~~.801 If the government chooses to present its required budgetary comparison information in the basic financial statements, [disclosure that a budget is not adopted for the general fund or a major special revenue fund because it is not legally required and, therefore, presentation of budgetary comparison information is not required] should be made in the notes to the financial statements [to explain why what might appear to be required information is not part of the presentation].~~
~~[AICPASLG 2002, ¶11.16 and~~
~~¶14.56, fn19] superseded by GASBS XX, ¶134~~

CASH FLOWS STATEMENTS

SECTION 2450

Sources: GASBS 9, GASBS 34, GASBS 35, GASBS 84, GASBS XX, GASBIG 2015-1, GASBIG 2016-1, GASBIG 2017-1

See also: Section 2200, “Comprehensive Annual Financial Report”
Section P80, “Proprietary Fund Accounting and Financial Reporting”

Scope of This Section

.101 This section establishes standards for reporting cash flows of proprietary funds and governmental entities engaged in business-type activities, including public benefit corporations and authorities, governmental utilities, governmental hospitals [and other healthcare providers], and public colleges and universities. Section 1300, “Fund Accounting,” paragraphs .109 and .110, defines proprietary (enterprise and internal service) funds. Business-type activities are financed in whole or in part by fees charged to external users for goods or services. These activities are generally reported in enterprise funds. [GASBS 9, ¶1 and ¶5, as amended by GASBS 34, ¶69 and ¶106; GASBS 34, ¶15; GASBS 35, ¶5]

Applicability of This Section

.102 The provisions of this section are applicable to proprietary funds and governmental entities engaged in business-type activities,¹ including public benefit corporations and authorities, governmental utilities, governmental hospitals [and other healthcare providers], and public colleges and universities. Trust funds (including pension and other employee benefit trust funds) are exempt from the requirement to present a statement of cash flows. However, trust funds are not precluded from presenting a statement of cash flows if the information provided is considered useful. [GASBS 9, ¶5, as amended by GASBS 34, ¶106 and GASBS 73, ¶10; GASBS 34, ¶15, ¶69, ¶106, and ¶138; GASBS 35, ¶5]

Financial Reporting of Cash Flows

.103 Proprietary funds and governmental activities engaged in business-type activities should present a statement of cash flows for each period for which results of operations are reported. [GASBS 9, ¶6; GASBS 34, ¶91 and ¶138]

Purpose of a Statement of Cash Flows

.104 The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. When used with related disclosures and information in the other financial statements, the information a

¹Unless otherwise noted, future references in this section to affected funds and entities will simply be to “governmental enterprises.” [GASBS 9, fn3]

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statement of cash flows provides should help financial report users assess (a) an entity's ability to generate future net cash flows, (b) its ability to meet its obligations as they come due, (c) its needs for external financing, (d) the reasons for differences between operating income (or net income if operating income is not separately identified on the operating statement) and associated cash receipts and payments, and (e) the effects on the entity's financial position of both its cash and its noncash investing, capital, and financing transactions during the period. To do this, a statement of cash flows should report the cash effects during the reported period of an entity's operations, its noncapital financing transactions, its capital and related financing transactions, and its investing transactions. Related information should report the investing, capital, and financing transactions that affect an entity's financial position but do not directly affect cash flows during the period. A reconciliation of operating income to net cash flow from operating activities also should be provided. This reconciliation generally will provide information about the net effects of operating transactions and other events that affect operating income and operating cash flows in different periods. [GASBS 9, ¶7, as amended by GASBS 34, ¶100]

Focus on Cash and Cash Equivalents

.105 A statement of cash flows should explain the change during the period in cash² and cash equivalents regardless of whether there are restrictions on their use. The statement should use a descriptive term such as *cash* or *cash and cash equivalents* rather than the term *funds*, which has several different meanings in governmental accounting. The total amounts of cash and cash equivalents at the beginning and end of the period shown in the statement of cash flows should be easily traceable to similarly titled line items or subtotals shown in the statements of financial position as of those dates. [GASBS 9, ¶8]

.106 For purposes of this section, cash equivalents are defined as short-term, highly liquid investments that are both

- a. Readily convertible to known amounts of cash.
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities³ of three months or less meet this definition. [GASBS 9, ¶9]

²Consistent with common usage, *cash* includes not only currency on hand, but also demand deposits with banks or other financial institutions. *Cash* also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental enterprise may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty. [GASBS 9, fn5]

³*Original maturity* means the original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining term is three months. [GASBS 9, fn6]

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.107 Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools. Cash purchases and sales of those types of investments generally are part of the entity's cash management activities rather than part of its operating, capital, investing, and financing activities, and details of those transactions should not be reported in a statement of cash flows. [GASBS 9, ¶10]

.108 Not all investments that qualify are required to be treated as cash equivalents. An entity should establish a policy concerning which short-term, highly liquid investments (that satisfy the definition of cash equivalents in paragraph .106) it will treat as cash equivalents. An entity should disclose its policy for determining which of those items are treated as cash equivalents. Any change in that policy is a change in accounting principle that should be reported by restating financial statements for earlier years presented for comparative purposes. [GASBS 9, ¶11]

Gross and Net Cash Flows

.109 Generally, information about the gross amounts of cash receipts and cash payments during a period is more relevant than information about the net amount of cash receipts and payments. However, the net amount of related receipts and payments provides sufficient information not only for cash equivalents, as noted in paragraph .107, but also for certain other classes of cash flows specified in paragraphs .110, .111, and .130. [GASBS 9, ¶12]

.110 Items that qualify for net reporting because their turnover is quick, their amounts are large, and their maturities are short are cash receipts and payments pertaining to (a) investments (other than cash equivalents), (b) loans receivable, and (c) debt, provided that the original maturity of the asset or liability is three months or less.⁴ [GASBS 9, ¶13]

.111 In addition, in certain circumstances governmental enterprises may report net the purchases and sales of their highly liquid investments rather than report the gross amounts. Net reporting is allowed if (a) during the period, substantially all of the governmental enterprise's assets were highly liquid investments (for example, marketable securities and other assets for which a market is readily available) and (b) the governmental enterprise had little or no debt, based on average debt outstanding during the period, in relation to average total assets. [GASBS 9, ¶14]

⁴For this purpose, amounts due on demand are considered to have maturities of three months or less. Examples of items that could be reported "net" based on the criteria in paragraph .110 are most repurchase agreements (assuming the entity chooses not to include them as cash equivalents) and loans to and from other funds to cover temporary (three months or less) cash needs. [GASBS 9, fn7]

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Classification of Cash Receipts and Cash Payments

.112 A statement of cash flows should classify cash receipts and cash payments as resulting from operating, noncapital financing, capital and related financing, or investing activities. [GASBS 9, ¶15]

Cash Flows from Operating Activities

.113 Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income.⁵ [GASBS 9, ¶16]

.114 Cash inflows from operating activities include

- a. Cash inflows from sales of goods or services, including receipts from collection of accounts receivable and both short- and long-term notes receivable from customers arising from those sales.
- b. Cash receipts from interfund services provided.
- c. Cash receipts from grants for specific activities that are considered to be operating activities of the grantor government. (A grant arrangement of this type is essentially the same as a contract for services.)
- d. Cash receipts from interfund reimbursements.
- e. All other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

[GASBS 9, ¶17; GASBS 34, ¶112]

.115 Cash outflows for operating activities include

- a. Cash payments to acquire materials for providing services and manufacturing goods for resale, including principal payments on accounts payable and both short- and long-term notes payable to suppliers for those materials or goods.
- b. Cash payments to other suppliers for other goods or services.
- c. Cash payments to employees for services.
- d. Cash payments for grants to other governments or organizations for specific activities that are considered to be operating activities of the grantor government.
- e. Cash payments for taxes, duties, fines, and other fees or penalties.

⁵Proprietary activities are required to present a separate subtotal for operating income in their statement of revenues, expenses, and changes in net position. Paragraphs .195 and .196 of Section 2200, paragraph .193, provides guidance on defining define operating revenues and expenses. [GASBS 34, ¶100, as amended by GASBS 63, ¶18; and GASBS 34, ¶102; XX, ¶131 and ¶132; GASBS XX, ¶131 and ¶132]

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- 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. All other cash payments that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

[GASBS 9, ¶18; GASBS 34, ¶112]

.116 Cash flows from operating activities also include transactions of certain loan programs. Even though loan activities are usually classified as investing activities, certain loan programs are not intended to be investments, but are undertaken instead to fulfill a governmental responsibility. These “program loans” are made and collected as part of a governmental program, for example, low-income housing mortgages or student loans. For cash flow reporting purposes, these loan activities are the *operating* activities of the governmental enterprise; therefore, the related cash flows should be classified as operating activities. All loans made and collected (including interest) should be considered operating cash outflows and inflows, respectively. Any proceeds from bonds issued to finance the loan program and subsequent debt service payments (principal and interest) should be classified as noncapital financing activities. [GASBS 9, ¶19]

.117 A business-type activity that, in accordance with paragraph .116 of Section 1300, chooses to report in its statement of net position assets and liabilities that otherwise should be reported in a custodial fund should separately report additions and deductions, if significant, as cash inflows and cash outflows, respectively, in the operating activities category of its statement of cash flows. [GASBS 84, ¶19]

Cash Flows from Noncapital Financing Activities

.118 Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also included are certain other interfund and intergovernmental receipts and payments. [GASBS 9, ¶20]

.119 Cash inflows from noncapital financing activities include

- a. Proceeds from issuing bonds, notes, and other short- or long-term borrowing not clearly attributable to acquisition, construction, or improvement of capital assets.

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- b. Cash receipts from grants or subsidies⁶ except (1) those specifically restricted for capital purposes (paragraph .122b) and (2) those for specific activities that are considered to be operating activities of the grantor government (paragraph .114c).
- c. Cash received from other funds except (1) those amounts that are clearly attributable to acquisition, construction, or improvement of capital assets (paragraph .122c),
(2) interfund services provided (paragraph .114b), and (3) interfund reimbursements (paragraph .114d).
- d. Cash received from property and other taxes collected for the governmental enterprise and not specifically restricted for capital purposes.

[GASBS 9, ¶121; GASBS 34, ¶112]

.120 Cash outflows for noncapital financing activities include

- a. Repayments of amounts borrowed for purposes other than acquiring, constructing, or improving capital assets.
- b. Interest payments to lenders and other creditors on amounts borrowed or credit extended for purposes other than acquiring, constructing, or improving capital assets.
- c. Cash paid as grants or subsidies to other governments or organizations, except those for specific activities that are considered to be operating activities of the grantor government (paragraph .115d).⁷
- d. Cash paid to other funds, except for interfund services used (paragraph .115f).

[GASBS 9, ¶122; GASBS 34, ¶112]

Cash Flows from Capital and Related Financing Activities

.121 Capital and related financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit. [GASBS 9, ¶123]

.122 Cash inflows from capital and related financing activities include

- a. Proceeds from issuing or refunding bonds, mortgages, notes, and other short- or long-term borrowing clearly attributable to the acquisition, construction, or improvement of capital assets.

⁶For example, grants or subsidies provided to finance operating deficits would be classified as noncapital financing activities. [GASBS 9, fn9]

⁷For grantor classification purposes, it is irrelevant whether the grantee uses the grant as an operating subsidy or for capital purposes. The grantor should classify all grants, except for those addressed in paragraph .115d, as noncapital financing activities. [GASBS 9, fn10]

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- b. Receipts from capital grants awarded to the governmental enterprise.
- c. Receipts from contributions made by other funds, other governments, and other organizations or individuals for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets.
- d. Receipts from sales of capital assets; also, proceeds from insurance on capital assets that are stolen or destroyed.
- e. Receipts from special assessments or property and other taxes levied specifically to finance the construction, acquisition, or improvement of capital assets.

[GASBS 9, ¶24]

.123 Cash outflows for capital and related financing activities include

- a. Payments to acquire, construct, or improve capital assets.
- b. Repayments or refundings of amounts borrowed specifically to acquire, construct, or improve capital assets.
- c. Other principal payments to vendors who have extended credit to the governmental enterprise directly for purposes of acquiring, constructing, or improving capital assets.
- d. Cash payments to lenders and other creditors for interest directly related to acquiring, constructing, or improving capital assets.

[GASBS 9, ¶25]

Cash Flows from Investing Activities

.124 Investing activities include making and collecting loans (except program loans, as discussed in paragraph .116) and acquiring and disposing of debt or equity instruments. [GASBS 9, ¶26]

.125 Cash inflows from investing activities include

- a. Receipts from collections of loans (except program loans) made by the governmental enterprise and sales of other entities' debt instruments (other than cash equivalents) that were purchased by the governmental enterprise.
- b. Receipts from sales of equity instruments and from returns of investment in those instruments.
- c. Interest and dividends received as returns on loans (except program loans), debt instruments of other entities, equity securities, and cash management or investment pools.⁸
- d. Withdrawals from investment pools that the governmental enterprise is not using as demand accounts.

[GASBS 9, ¶27]

⁸Interest credited directly to a deposit account that has the general characteristics described in footnote 2 is a cash outflow of the payor and a cash inflow to the payee when the entry is made. [GASBS 9, fn11]

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.126 Cash outflows for investing activities include

- a. Disbursements for loans (except program loans) made by the governmental enterprise and payments to acquire debt instruments of other entities (other than cash equivalents).
- b. Payments to acquire equity instruments.
- c. Deposits into investment pools that the governmental enterprise is not using as demand accounts.

[GASBS 9, ¶128]

Distinguishing between Capital and Noncapital Financing

.127 Borrowings for capital purposes generally are readily distinguishable from borrowings for other purposes. For example, mortgages, capital improvement bonds, and time-pay arrangements for purchasing equipment are clearly for capital purposes. Sometimes, however, determining whether debt proceeds and repayments should be classified as “capital and related financing” or “noncapital financing” may be more difficult. In general, any debt that is clearly attributable to capital construction, acquisition, or improvement should be considered capital debt, and the debt proceeds and subsequent payments of principal and interest should be classified as “capital and related financing.” The following provides guidance for other situations:

- a. Debt that is not clearly attributable to capital construction, acquisition, or improvement should be considered noncapital debt, and the debt proceeds and subsequent payments of principal and interest should be classified as noncapital financing.
- b. Principal and interest payments on debt that was issued to acquire, construct, or improve capital assets that have been sold or otherwise disposed of should remain classified as capital and related financing.
- c. In a defeasance of debt, the proceeds of a refunding debt issue used to refund capital debt should be reported as a cash inflow in the capital and related financing category and the payment to defease the existing capital debt should be reported as an outflow in that category. Similarly, subsequent principal and interest payments on the refunding debt should also be reported as cash outflows in the capital category. If the refunding issue is in excess of the amount needed to refund the existing capital debt, the total proceeds and the subsequent principal and interest payments should be allocated between the capital category and the noncapital financing category based on the amounts used for capital and noncapital purposes.

[GASBS 9, ¶129]

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Content and Form of a Statement of Cash Flows

.128 A statement of cash flows for the period should report net cash provided or used in each of the four categories, as well as the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents. [GASBS 9, ¶30]

.129 In reporting cash flows from operating activities, governmental enterprises should report major classes of gross cash receipts and gross cash payments and their arithmetic sum—the net cash flow from operating activities (the direct method). Governmental enterprises should, at a minimum, separately report 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.

Governmental enterprises are encouraged to provide further detail of operating cash receipts and payments if the detail is considered useful. [GASBS 9, ¶31; GASBS 34, ¶105 and ¶112]

.130 Governmental enterprises should also provide—in an accompanying schedule—a reconciliation of operating income to operating cash flows. The reconciliation should determine and report the same amount for net cash flow from operating activities indirectly by adjusting operating income to remove the effects of depreciation, amortization, and other deferred outflows of resources and deferred inflows of resources of past operating cash receipts and payments, such as changes during the period in inventory, liabilities, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables. The reconciliation should separately report all major classes of reconciling items. At a minimum, changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities should be separately reported. Governmental enterprises are encouraged to provide further detail of those categories if the detail is considered useful. The reconciliation schedule may be presented on the same page as the statement of cash flows, if space permits. [GASBS 9, ¶32, as amended by GASBS 34, ¶100 and ¶105, and GASBS 65, ¶31; GASBS 9, ¶33 and ¶34, as amended by GASBS 34, ¶100 and ¶105]

.131 Except for the items described in paragraphs .110 and .111, cash inflows and outflows in the other categories should be reported separately in a statement of cash flows—for example, outlays for acquisitions of capital assets should be reported

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separately from the proceeds from sales of capital assets, and proceeds of borrowing should be reported separately from repayments. [GASBS 9, ¶35]

.132 On the statements of cash flows of individual funds, the gross amounts of interfund transfers should be presented in the appropriate categories. However, interfund cash transfers may be eliminated in the statements of cash flows if interfund transfers are also eliminated in other financial statements.⁹ [GASBS 9, ¶36, as amended by GASBS 34, ¶6 and ¶105]

Information about Noncash Investing, Capital, and Financing Activities

.133 Information about all investing, capital, and financing activities of a governmental enterprise during a period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period should be reported. This information should be presented in a separate schedule, which may be in either a narrative or a tabular format, and it should clearly describe the cash and noncash aspects of transactions involving similar items. The schedule may be presented, if space permits, on the same page as the statement of cash flows. Examples of noncash transactions are acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; obtaining a lease asset by entering into a lease; and exchanging noncash assets or liabilities for other noncash assets or liabilities. Some transactions are part cash and part noncash; only the cash portion should be reported in the statement of cash flows. [GASBS 9, ¶37, as amended by GASBS 87, ¶20]

⁹The subject of eliminations in the fund financial statements is addressed in Section 2200, footnote 5. [GASBS 9, fn12, as amended by GASBS 34, ¶6]

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.701 Scope of This Section

No questions assigned.

.702 Applicability of This Section

See also Question .703-1 in Section Co5, "Colleges and Universities," for a discussion of requirements for a statement of cash flows for colleges and universities.

.702-1 Q—Are public employee retirement systems (PERS) prohibited from presenting a statement of cash flows? If a statement of cash flows is presented, should it conform to the requirements of this section or can the presentation be modified?

A—PERS are not required to present a statement of cash flows; however, they are not precluded from presenting it as supplementary information. This section establishes standards for the basic financial statements; it does not prescribe requirements for data presented as supplementary information. PERS that present a statement of cash flows as supplementary information may choose, but are not required, to present that statement in accordance with the provisions of this section.

[GASBIG 2015-1, Q2.5.1]

.702-2 Q—In the private sector, certain investment companies are exempted from presenting a statement of cash flows. Are public-sector investment pools similarly exempt?

A—Yes. Paragraph .103 of Section In5, "Investment Pools (External)," states that ". . . annual financial reports for governmental external investment pools should include a statement of net position and a statement of changes in net position. A statement of cash flows is not required to be presented." Paragraph .136 of Section I50, "Investments," requires sponsoring governments to use fiduciary funds to report the external portions of their investment pools.

[GASBIG 2015-1, Q2.7.1, as amended by GASBS 84, ¶14 and ¶E1]

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.703 Financial Reporting of Cash Flow

.703-1 Q—Should cash flows of fiduciary activities be included in the statement of cash flows for a university that reports using the business-type activities model?

A—A statement of cash flows is required for proprietary funds and entities that use proprietary fund accounting. A statement of cash flows is not required for fiduciary funds. Therefore, only if the university includes the cash and cash equivalent balances of the activity that otherwise would be a fiduciary activity with the cash and cash equivalents reported on the university's statement of net position in accordance with paragraph .116 of Section 1300, should the receipts and disbursements pertaining to those activities be included, if significant, as cash inflows and cash outflows, respectively, in the operating activities category of the university's statement of cash flows.

[GASBIG 2015-1, Q2.7.2, as amended by GASBS 84, ¶5 and ¶19]

.703-2 Q—Should a proprietary fund that has no operating income or loss present a statement of cash flows?

A—Yes. A statement of cash flows should be presented for all proprietary funds even if operating income is zero. Transactions other than those resulting in operating income create cash flows that should be presented in the statement of cash flows. If there is no operating income or loss for the period, the reconciliation of operating income to net cash flow from operating activities would begin with zero. Adjustments and reconciling items should be presented as additions to and deductions from zero to arrive at the amount of net cash flow from operating activities.

[GASBIG 2015-1, Q2.7.3]

.704 Purpose of a Statement of Cash Flows

No questions assigned.

.705 Focus on Cash and Cash Equivalents

.705-1 Q—Is the definition of cash equivalents limited to investments with an original maturity of three months or less?

A—Generally, the three-month criterion is the deciding factor. The definition of cash equivalents in paragraph .106 of this section first refers to short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

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Although this definition appears to be somewhat broad, the reference to “three months or less” provides more specific guidance.

Because the definition of cash equivalents is a vital part of a cash flow presentation, a uniform definition should be used by all governmental enterprises. Therefore, generally only investments with original maturities of three months or less meet the definition of cash equivalents.

[GASBIG 2015-1, Q2.11.1]

.705-2 Q—When should the term *original maturity* be applied to investment purchases?

A—Original maturity is based on the date the governmental enterprise purchases an investment. If, *on the purchase date*, a qualifying investment will mature in three months or less, it meets the definition of a cash equivalent. The evaluation should be made only once, as of the purchase date. (See footnote 3 of this section for further explanation.)

[GASBIG 2015-1, Q2.11.2]

.705-3 Q—How should a negative cash balance be presented in the statement of cash flows?

A—For purposes of the statement of cash flows, a negative cash balance should be assumed to be zero. This is consistent with traditional balance sheet reporting of zero cash and a liability for the negative amount. Because the accumulation of cash flows during the period results in a negative cash balance, an adjustment should be made to the cash flow amounts. An increase to zero in cash balance should be incorporated into the statement of cash flows by reporting an inflow in the noncapital financing activities category. This presentation reports the circumstances as if the banking system (or cash management pool) implicitly financed the negative cash situation. In the subsequent period, an assumption should be made that the “loan” was repaid, and a noncapital financing outflow should be reported.

The presentation of implicit financing contradicts the requirement that cash flows not be reported unless they actually occur. The alternatives to this solution, however, are impractical and also have their own inconsistencies and contradictions. (See Example B in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.11.3]

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.705-4 Q—What are the cash flow statement ramifications of opting to treat an investment instrument that meets the definition of a cash equivalent as an investment?

A—If an instrument is treated as a cash equivalent, its conversion to or from cash or another cash equivalent would not be reported on the statement of cash flows. The transaction is analogous to the transfer of cash between two checking accounts. If, on the other hand, an instrument is treated as an investment, its conversion to or from cash or a cash equivalent should be reported in the investing activities category of the statement of cash flows, and the cash flows usually should be presented gross.

[GASBIG 2015-1, Q2.12.1]

.705-5 Q—Can restricted cash equivalents be treated as investments if similar unrestricted cash equivalents are treated as cash equivalents?

A—Yes. Identifying restricted cash equivalents that are similar to unrestricted cash equivalents as investments is acceptable according to the provisions of paragraph .108 of this section. As long as an entity formulates and discloses a specific policy for defining cash equivalents, it may elect to treat any type of cash equivalents as investments. For example, Treasury bills with 60-day maturities in a restricted portfolio may be treated as investments even if unrestricted Treasury bills with the same maturities are treated as cash equivalents. (Paragraph 52 of the Basis for Conclusions of Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, states that “. . . governmental enterprises may choose to treat their restricted cash equivalents or unrestricted cash equivalents as investments.”)

[GASBIG 2015-1, Q2.12.2]

.705-6 Q—When attempting to determine whether a participant is using an internal cash management or investment pool as a demand deposit account, is it important to consider the pool’s liquidity?

A—Yes, to some extent. A participant’s equity in an internal cash management or investment pool should not be considered cash unless the participant is able to withdraw cash at any time without prior notice or penalty. (Footnote 2 of this section acknowledges that cash includes “deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental enterprise may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.”) If the pool is not liquid

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enough to enable a participant to make such demands on the pool, the participant is not able to use its equity in the pool as a demand deposit account. Stated another way, an investment pool should be evaluated as if it were a mutual fund. To some extent, the pool's investments affect the ability of participants to use the pool as a demand deposit account. Also important are the number of participants and the likelihood that their withdrawals could overburden the pool. For cash flow reporting purposes, the equity in a pool that is not sufficiently liquid to enable withdrawal without prior notice or penalty should be treated as an investment.

[GASBIG 2015-1, Q2.13.1]

.705-7 Q—Can an internal investment pool that is not being used by some participants as a demand deposit account be treated as cash by those participants who do use their equity in the pool as a demand deposit account?

A—Yes. The determination of whether a pool is being used as a demand deposit account should be made by each participant, independently of how other participants use the pool. If the pool is managed in such a way as to allow the governmental enterprise making the evaluation to deposit and withdraw funds as if it were a demand deposit account, that governmental enterprise's equity in the pool could be considered cash.

[GASBIG 2015-1, Q2.13.2]

.705-8 Q—Does restricted cash that is pooled by a bond paying agent meet the definition of a cash management or investment pool?

A—For cash flow reporting purposes, a pool operated by a bond paying agent is very similar to a mutual fund or an internal cash management or investment pool. If the bond paying agent pools the assets it receives from various sources and allocates investment earnings to all participants, the assets should be viewed as equity in a pool. According to footnote 2 of this section (and explained in paragraph 50 of the Basis for Conclusions of Statement 9), equity in a pool should be treated as either cash or an investment. If the governmental enterprise is able to deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty, the equity in the pool may be treated as cash. If not, it is an investment.

Because the equity in the pool is restricted, there may be a question about whether the governmental enterprise may withdraw cash at any time. Even though the governmental enterprise may not be able to access its equity in the pool because the assets are legally restricted, it is able to withdraw cash by directing the bond paying agent to pay bondholders or others for whom

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the assets are restricted. The legal restrictions affect the governmental enterprise's access to the assets and the timing of payment to bondholders, but the restrictions do not change the characteristics of the account in which the assets are held. Paragraph .105 of this section disregards restriction of use as a factor in determining whether an asset meets the definition of cash or a cash equivalent.

[GASBIG 2015-1, Q2.13.3]

.705-9 Q—Does the issuance of warrants reduce cash?

A—Yes. The issuance of warrants, rather than the subsequent acceptance by the treasurer of the warrants, effectively reduces cash. That reduction of cash creates a cash flow. The substance, rather than the legal form, of the warrants should prevail. In a warrant system, participants draw down an available cash balance by issuing warrants. The system operates essentially as an internal cash management pool. It is irrelevant whether a warrant has been redeemed, just as it is irrelevant whether a check has been cashed, for determining cash balance. (See Question .705-3 in this section for further explanation of cash flow timing.)

[GASBIG 2015-1, Q2.13.4]

.705-10 Q—Is there a cash flow to be reported in the statement of cash flows if an internal cash management pool engages in reverse repurchase agreement transactions with a third party?

A—No. If a reverse repurchase agreement is transacted through an internal cash management or investment pool, there are *no cash flows* directly into or out of an individual fund participating in the pool. The *pool* receives the borrowed cash and is obligated to “repurchase” the instrument at a later date. Reverse repurchase agreement activity in an internal cash management or investment pool should have no effect on the participants' statements of cash flows—neither on the cash flows reported nor on the beginning and ending balances of cash and cash equivalents.

Paragraphs .117 and .118 of Section I55, “Investments—Reverse Repurchase Agreements,” explains that, when a *pool* engages in a reverse repurchase agreement, the participating funds should be allocated to the related asset and liability and the interest income and expense. An allocation, however, is not a cash transaction to be presented in the statement of cash flows.

[GASBIG 2015-1, Q2.13.5]

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.705-11 Q—How does the definition of cash equivalents correspond with the use of the terms *deposits* and *investments* in Sections C20, “Cash Deposits with Financial Institutions,” and I50, “Investments”?

A—Sections C20 and I50 distinguish between deposits with financial institutions and investments. The two are mutually exclusive for purposes of those sections. The definition of a cash equivalent in this section overlaps deposits and investments. A cash equivalent, when evaluated for purposes of Section C20 or Section I50, is either a deposit or an investment. For example, a 60-day certificate of deposit is a deposit with a financial institution, and a Treasury bill purchased 60 days before its maturity is an investment. But for cash flow reporting purposes, both qualify as cash equivalents because their original maturities are three months or less. The fact that a cash equivalent is a deposit or an investment for purposes of Section C20 or Section I50 has no effect on the presentation of the statement of cash flows.

[GASBIG 2015-1, Q2.14.1, as amended by GASBIG 2018-1, Q5.2]

.705-12 Q—How should differences between the definition of cash equivalents in this section and the definitions of deposits and investments in Sections C20 and I50 be reconciled?

A—The definition of cash equivalents in this section affects reported cash flows and beginning and ending cash and cash equivalent balances, as well as presentation of the related assets on the statement of net position/balance sheet. Sections C20 and I50 primarily address disclosure in the notes to the financial statements. The financial statement presentation requirements of this section, as they relate to the presentation of cash equivalents, take precedence over discussions of deposits and investments in Sections C20 and I50. There is no requirement to reconcile the disclosures required by Section C20 or Section I50 to the statement of cash flows or to the statement of net position/balance sheet; however, some believe a reconciliation provides useful information. (See Question .739-29 in Section I50. See also Questions .705-14 and .705-15 in this section for a discussion of the Statement 9 requirements for articulation between the statement of cash flows and the statement of net position/balance sheet.)

[GASBIG 2015-1, Q2.14.2]

.705-13 Q—When has a cash flow occurred?

A—Sometimes there may be a question as to whether a *cash* transaction has occurred. It may be confusing to identify a cash flow in a banking environment. Generally, cash flows only if it changes hands; that is, ownership of cash legally changes. In an internal exchange transaction conducted to-

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tally within a bank, a cash transaction occurs only if a debit or credit is made to a governmental enterprise's bank account. For example, a service charge or interest income is considered to be a cash transaction on the date the bank posts the amount to the account. After that date, the interest amount is available for withdrawal or the amount posted for the service charge is no longer available for withdrawal. Another example is a loan granted by a bank. If the loan proceeds are credited to the borrower's bank account, a cash flow occurred. If the bank remitted the proceeds directly to the vendor, a noncash financing activity occurred. (See Question .714-2 in this section for a discussion of noncash transactions.)

[GASBIG 2015-1, Q2.15.1]

.705-14 Q—Do the requirements of Sections C20 and I50 affect the articulation of the statement of cash flows to the statement of net position/balance sheet?

A—No. As discussed in Question .705-12 in this section, because this section addresses financial statement display and Sections C20 and I50 address disclosure in the notes to the financial statements, this section takes precedence in issues of financial reporting display. This section mandates articulation between the statement of cash flows and the statement of net position/balance sheet, possibly requiring changes to certain statement of net position/balance sheet presentations. Paragraph .105 of this section states, "The total amounts of cash and cash equivalents at the beginning and end of the period shown in the statement of cash flows should be easily traceable to similarly titled line items or subtotals shown in the statements of financial position as of those dates." Therefore, it would be inconsistent to include in the caption "cash and cash equivalents" items that do not meet the definition.

Sections C20 and I50 do not require articulation between the required disclosures and the statement of net position/balance sheet. However, some do trace the balances in the disclosures required by Section C20 or Section I50 to the statement of net position/balance sheet presentation. Because this section changes that presentation, a reconciliation may be necessary when tracing these disclosures to the statement of net position/ balance sheet. (See Question .739-29 in Section I50.)

[GASBIG 2015-1, Q2.31.1]

.705-15 Q—Is it possible to trace cash and cash equivalent balances to the statement of net position/balance sheet if participation in a cash management pool is reported as "equity in pooled cash" rather than as "cash and cash equivalents"?

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A—Yes. Rather than require cash and cash equivalents per the statement of cash flows to be the same as similarly titled line items in the statement of net position/balance sheet, paragraph .105 of this section requires that cash and cash equivalents be *easily traceable* to similarly titled line items in the statements of financial position. This flexibility was provided to allow restricted cash and cash equivalents to be presented separately in the statement of net position/balance sheet. A reconciliation is not necessary if a reader is able to easily trace the statement of cash flows amounts to similarly titled line items in the statement of net position/balance sheet.

This flexibility also is useful for various other articulation problems, such as the labeling conflict in this question. Because the equity in the pooled cash meets the definition of cash, it may be included in the balance of cash and cash equivalents. If it is labeled as “equity in pooled cash” on the statement of net position/balance sheet, a reader may not be able to easily trace from the statement of cash flows to the statement of net position/balance sheet. Therefore, a reconciliation may be provided—for example, at the bottom of the statement of cash flows—tracing the amounts per the statement of cash flows to the appropriate statement of net position/balance sheet line items. (See Example A in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.31.2]

.706 Gross and Net Cash Flows

.706-1 Q—Should a governmental enterprise that qualifies for netting its investing activities under paragraph .111 of this section test for qualification every year?

A—This section states that information about gross cash receipts and payments is generally more relevant than net cash flow information. Therefore, the provision allowing a governmental enterprise to report certain cash flows net is an exception that should be used only after careful consideration. A governmental enterprise that qualifies for netting in one year should not presume to qualify permanently because it is possible to meet the criteria in one reporting period but not in another. Paragraph .111 lists two criteria that should be met in order for a governmental enterprise to qualify for net reporting of investments, and both should be evaluated throughout the year: “(a) during the period, substantially all of the governmental enterprise’s assets were highly liquid investments (for example, marketable securities and other assets for which a market is readily available) and (b) the governmental enterprise had little or no debt, based on average debt outstanding during the period, in relation to average total assets.” The basic characteristics of a governmental enterprise that qualifies for this netting provision should be called into question if they are subject to change. Essentially, the exception was designed to facilitate the cash flow reporting of governmental

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enterprises engaged solely in managing a highly liquid investment portfolio. If high liquidity varied from year to year, the governmental enterprise would not meet the spirit of the exception in any year.

[GASBIG 2015-1, Q2.16.1]

.706-2 Q—Paragraph .117 of Section P40, “Pollution Remediation Obligations,” states that the measurement of a government’s pollution remediation expense should include all remediation work that the government expects to perform, *reduced* by expected recoveries from other parties and from policies that indemnify the government for its pollution remediation obligations. Should receipts of recoveries also reduce outflows reported on the statement of cash flows?

A—No. All cash flows for pollution remediation activities should be reported gross, in accordance with the provisions of this section.

[GASBIG 2015-1, Q2.16.2]

.706-3 Q—Can interfund loan activity be netted?

A—No. The preference for gross cash flow information over net cash flow information applies to interfund loan activity. Loan activity may qualify for net reporting only if the turnover is quick, the amounts are large, and the maturities are short (three months or less), based on paragraph .110 of this section.

[GASBIG 2015-1, Q2.26.2]

.706-4 Q—What level of detail should be provided for individual line items in the statement of cash flows?

A—Gross cash flow information generally is required. Therefore, related transactions should not be netted. For example, bond proceeds should be reported separately from capital purchases made with the proceeds. Beyond that, the level of detail in the descriptions of the categories (in paragraphs .114–.126 of this section) and illustrated in nonauthoritative paragraph .901 of this section provides a guideline for determining the appropriate level of detail in the statement of cash flows. For example, separating the principal and interest portions of debt service payments is considered useful.

The most specific guidance in this section as to level of detail in reporting is provided in the guidance for reporting cash flows from operating activities (paragraph .129 of this section). The discussion provides seven classes of

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information that serve as a minimum level of required detail.

- a. Cash receipts from customers
- b. Cash receipts from interfund services provided
- c. Other operating cash receipts, if any
- d. Cash payments to other suppliers of goods or services
- e. Cash payments to employees for 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 or received
- g. Other operating cash payments, if any.

In all cases, governmental enterprises are encouraged to provide further detail if the information would be useful.

[GASBIG 2015-1, Q2.29.1]

.707 Classification of Cash Receipts and Cash Payments

- .707-1 Q—How should bond issuance costs and underwriter fees be presented in the statement of cashflows?

A—If bond issuance costs and underwriter fees were deducted from bond proceeds, the governmental enterprise experienced only one cash flow. The net amount of bond proceeds actually received should be presented as a cash inflow in the appropriate category (either capital and related financing or noncapital financing, depending on the purpose of the borrowing).

On the other hand, if a governmental enterprise receives the proceeds from the sale of bonds and pays bond issuance costs and underwriter fees separately, the following cash flows should be presented: The total amount of bond proceeds should be presented as a cash inflow in the appropriate category (either capital and related financing or noncapital financing, depending on the purpose of the borrowing). The costs and fees that are paid from the governmental enterprise’s cash or cash equivalents should be presented as cash outflows in the same category. (See Examples A, C, E, and F in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.15.2]

- .707-2 Q—Should a cash flow be presented if the proceeds of revenue bonds issued by a finance authority are remitted directly to another organization?

A—No. If bond proceeds are remitted directly to another organization, there are no cash flows to report. If, however, the proceeds are received by the

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governmental enterprise (deposited in a cash or cash equivalent of the governmental enterprise) for distribution to another organization, cash flows do occur. The governmental enterprise is operating as an intermediary. Because the cash inflow and the cash outflow do not meet the criteria of the capital and related financing, noncapital financing, or investing activities category, both should be presented in the operating activities category. The operating activities category is the residual category.

[GASBIG 2015-1, Q2.15.4]

.707-3 Q—~~Rent~~ How should rent income ~~is an item often be~~ presented in the ~~nonoperating income section of the operating statement. Should rent be~~ classified as an operating activity or as some other activity in the statement of cash flows?

~~A—As discussed in Question .708-1 of this section, the classification of a transaction for operating statement purposes should not dictate its classification in the statement of cash flows. Therefore, the~~A—The basic question is whether rent income meets the classification criteria of the noncapital financing category, the capital and related financing category, or the investing activities category. If not, the cash flows should be classified in the operating activities category because that is the residual category. Rent income is not specifically addressed in this section; however, that should not necessarily lead one to categorize rent as an “operating activity.” The characteristics of the rent-generating asset should be examined.

The definition of the investing activities category does not specifically address the possibility of an investment being a tangible capital asset such as land; however, the list of investments described is not intended to be all-encompassing. If the land or other capital asset generating the rent meets the definition of an investment in paragraph .103 of Section I50, rent should be classified as an investing activity. Reporting the rent-generating asset in the statement of net position as an investment rather than a capital asset is evidence that the cash flows should be classified as investing activities.

[GASBIG 2016-1, Q4.9, as amended by GASBS XX, ¶131]

.707-4 Q—Should royalty income be evaluated in the same manner as rent income for statement of cash flows classification?

A—Yes. Royalty income is similar to rent income for cash flow reporting purposes. (See Question .707-3.) The asset underlying the royalties should be evaluated to determine whether it should be treated as an investment for cash flow reporting purposes. If it should, the royalty income should be

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classified as an investing activity. If not, the royalty income should be classified in the residual category—operating activities.

[GASBIG 2015-1, Q2.20.2, as amended by GASBIG 2016-1, Q5.1]

- .707-5 Q—How should contributions received by an enterprise fund that are not intended for capital purposes be classified?

A—Paragraph .119b of this section defines “noncapital” grants and subsidies as noncapital financing activities. A noncapital contribution to an enterprise fund would normally be used the same as a grant or subsidy; therefore, it should be classified as a noncapital financing inflow. (See Example I in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.20.3]

- .707-6 Q—How should the cash flows resulting from miscellaneous income and expense be classified?

A—Miscellaneous cash flows should be included in the operating activities category ~~even if the income or the expense is considered a nonoperating income item. The operating activities category is not limited to the cash flows resulting from operating income items. Unless, unless~~ the cash flows specifically meet the definition of the noncapital financing, capital and related financing, or investing activities category, ~~they should be presented in the residual category—operating activities. If nonoperating income items, such as miscellaneous income or expense, are included in the operating activities category, an adjustment should be made to operating income in the reconciliation of operating income to net cash flow from operating activities. (See Example H in nonauthoritative paragraph .901 of this section.)~~

[GASBIG 2015-1, Q2.20.5, as amended by GASBS XX, ¶31]

- .707-7 Q—How should transactions to provide for prize annuities be classified in a lottery’s statement of cash flows?

A—The discussion of debt defeasance in Question .712-3 in this section is relevant to the issue of lottery annuities. If, for example, a lottery purchases an annuity in a prize winner’s name and the transaction meets the requirements for right of setoff, the purchase should be considered an operating activities cash outflow (as though it paid the prize winner directly). If, on the other hand, a lottery purchases a series of investments, such as federal Treasury STRIPS, in its own name to allow it to service its prize awards as they come due, there are (at least) three cash flows to report. The purchase of the STRIPS and the proceeds received at maturity are investing activities

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cash flows. The cash payment to the prize winner is an operating activities cash flow. (See Example H in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.23.1]

.707-8 Q—A state government authority received a cash payment in exchange for the future cash flows from the collections of significant delinquent accounts receivable. How should the cash payment received be reported in the statement of cash flows?

A—If the transaction meets the criteria in paragraph .103 of Section S20, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,” the receivables are considered to have been sold and the cash flows from that sale should be reported as cash flows from operations. If those criteria are not met, the transaction is considered to be a borrowing, and the cash flows would be classified in the noncapital or capital and related financing category, depending on the nature of the receivables.

[GASBIG 2015-1, Q2.23.2]

.707-9 Q—How should hedging transactions be presented in the statement of cash flows?

A—Although this section does not specifically refer to hedging transactions, it does provide specific guidance for classifying the cash flows. A borrowing transaction should be considered a noncapital financing activity, and an investing transaction should be considered an investing activity.

[GASBIG 2015-1, Q2.23.3]

.707-10 Q—How should refundable customer deposits be classified?

A—Cash flows from deposits made by customers, and the eventual repayment of the deposits, should be classified as operating activities because the transactions do not meet the definitions of either the financing activities categories or the investing activities category. (The operating activities category is the residual category.) Although the deposits are refundable, they are not loans from customers. Therefore, these are not financing activities. And although the deposits may be invested or may otherwise earn interest

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(see Question .711-8 in this section), the receipts of the deposits are not investing activities. (See Example A in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.24.1]

- .707-11 Q—How should capital contributed by developers and other individuals be classified?

A—Cash contributed specifically to defray the cost of acquiring, constructing, or improving capital assets should be presented in the capital and related financing activities category, as required by paragraph .122c of this section. Noncash transactions (such as the contribution of water and sewer lines by a developer) should be disclosed in a schedule to the statement of cash flows. (See Questions .714-2 and .714-3 of this section; see also Examples A–C and I in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.24.3]

- .707-12 Q—How should tap fees be classified?

A—The portion of a fee (tap fee, system development fee, connection fee) that is received to defray the operating costs associated with connecting a customer with a utility system and that is reported in operating income should be presented in the operating activities category. Any portion of the fee that is to be used for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets should be presented in the capital and related financing activities category. (See Question .707-11 in this section; see also Example A in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.24.4]

- .707-13 Q—How should transactions of an education trust that is reported as an enterprise fund be classified?

A—An education trust accepts deposits from parents or others. In return for the deposits, college tuition payments will be made for students sometime in the future. The receipts should be reported as cash inflows in the operating activities category, and subsequent tuition payments also should be reported in the operating activities category. Cash flows from purchases and sales of the related investments and earnings on the investments should be classified in the investing activities category.

[GASBIG 2015-1, Q2.24.5]

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.707-14 Q—If there are cash flows related to a conduit debt obligation (such as industrial development bonds), how should they be classified?

A—If there are cash flows through the governmental enterprise related to debt for which the enterprise does not report a liability, related cash flows should not be presented in the investing activities category or either of the financing categories. Instead, the cash flows should be presented in the residual category—operating activities. (See Question .707-2 in this section for a discussion of identifying when a cash flow occurs.)

[GASBIG 2015-1, Q2.27.1, as amended by GASBS 91, ¶6]

.707-15 Q—Where should insurance proceeds be presented?

A—Insurance proceeds are specifically identified in only one place in this section. In accordance with paragraph .122d of this section, the capital and related financing activities category includes proceeds from insurance on capital assets that are stolen, damaged, or destroyed. Other insurance proceeds should be classified in the residual category—operating activities.

[GASBIG 2015-1, Q2.27.3]

.707-16 Q—How should lease activities be classified in the statement of cash flows?

A—Most leases result in the lessee recording an intangible lease asset, which is a type of capital asset. The capital and related financing activities category is directly affected by capitalization policies. (See paragraph 63 of the Basis for Conclusions of Statement 9.) If a lease results in a lessee recognizing a lease asset, the cash flows (including the interest portion) should be included in the capital and related financing activities category as an outflow in the lessee's statement of cash flows. A lessor should normally classify the inflows in the lessor's statement of cash flows consistent with how the underlying asset is classified on the statement of net position, that is, as an investing or capital and related financing activity. The lease transaction is a financing of a nonfinancial asset. The timing of the cash flows does not coincide with the date of the financing, but the cash flows are, nevertheless, payments for the right to use the nonfinancial asset. (See the discussion of noncash disclosures in Question .714-2 of this section.)

Cash flows resulting from a short-term lease, on the other hand, usually should be classified with operating activities. The lessee's cash payments always should be presented as an operating activities outflow. The lessor's cash receipts normally should be presented as an operating activities inflow; however, Question .707-3 discusses factors that should be evaluated to determine whether lease revenue may be classified as an investing activities inflow. (See Examples B, C, E, H, and I in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.27.5, as amended by GASBS 87, ¶16, ¶20, ¶40, and ¶55, and GASBIG 2016-1, Q5.2]

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.708 Cash Flows from Operating Activities

- .708-1 Q—Does the nature of a fund’s “operations” determine which cash flows should be presented in the operating activities category?

A—No. As stated in paragraph .104 of this section, “the primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period.” It was determined that the most useful presentation is to provide information about capital and related financing, noncapital financing, and investing activities, as well as cash flows from operating activities. This section defines the categories from a functional perspective. Although the operating activities category also is defined, it serves as the residual category. Therefore, cash flow transactions should be evaluated first according to the definitions of capital and related financing, noncapital financing, and investing activities before being included in the operating activities category.

The operating activities category of the statement of cash flows is not intended to be a cash-basis operating statement. The format prescribed in this section is intended to complement the accrual-basis financial statements. In addition, the presentation is not intended to imply that one category is more desirable than any other category. Therefore, there should be no predilection for classifying cash flows in the operating activities category or any other category.

[GASBIG 2015-1, Q2.18.1]

- .708-2 Q—Should all items reported as part of operating income be included in the operating activities category?

A—Yes. The operating activities category of the statement of cash flows includes the cash receipts and payments associated with the transactions and other events presented as operating revenues and expenses in the statement of revenues, expenses, and changes in fund net position.

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~~nonoperating income items would be classified in other than the operating activities category. The reconciliation of operating income to cash flows from operating activities would have fewer reconciling items if the operating activities category were highly correlated to operating income. However, paragraph .113 definitively states that the operating activities category includes "all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities." Therefore, operating income should not be considered a criterion for classifying cash flows.~~

~~If a transaction is included in operating income and its resulting cash flow meets the definition of a category other than operating activities, the item should be presented as a reconciling item in the reconciliation of operating income to net cash flow from operating activities. For example, if a finance authority reports interest income as a component of operating income, the cash received from interest income should be presented in the investing activities category. The reconciliation of operating income to net cash flow from operating activities should begin with reported operating income, and the interest income amount should be deducted as a reconciling adjustment to operating income, similar to depreciation. (See Questions .752-1-.752-5 in Section 2200.)~~

~~[GASBIG 2015-1, Q2.18.2, as amended by GASBS XX, ¶31]~~

.708-3 Q—What type of governmental loan programs, other than those for low income housing mortgages and student loans, meet the paragraph .116 of this section conditions for treatment as operating activities? Would a finance authority created to finance state building projects meet the provisions of paragraph .116?

A—Except for low-income housing mortgage programs and student loan programs, few, if any, programs qualify for special treatment under paragraph .116. The presumption should be to classify the making and collecting of all loans as investing activities. Paragraph .116 provides an *exception* to the classification scheme set forth in this section by allowing the cash flows associated with making and collecting *certain* program loans to be presented in the operating activities category rather than the investing activities category. Only the cash flows associated with making and collecting the loans are affected. The underlying financing transactions should be classified as noncapital financing activities, and the investment of idle cash should be classified as investing activities.

In deciding to provide the exception in paragraph .116, the Board concluded that it would be inappropriate, in some circumstances, to classify loan activities as investing activities. The Board evaluated the characteristics of governmental loan programs as it deliberated which programs meet the in-

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tent of the paragraph .116 exception. It concluded that certain “loan programs” are the operating activities of a governmental enterprise. The loans are not typical investments because they are not necessarily intended to earn a profit. However, the Board did not intend for *all* loan programs to be classified as operating activities. The loan programs that qualify for special treatment under paragraph .116 are distinguished from other governmental loan programs because they are undertaken to provide a *direct* benefit to *individual* constituents.

There are no specific criteria in paragraph .116 for determining which loan activities should be classified as operating rather than investing activities, nor is there an explanation of “direct benefits” being provided to “individual constituents.” There are only two examples of qualifying loan programs in paragraph .116—low-income housing and student loan programs. In the low-income housing mortgage program example, loans are made to individuals who might not otherwise qualify for a home mortgage. The program is intended to directly benefit the individuals receiving the loans. Usually, the interest rate on a loan provided by this type of program is below the market rate. A student loan program provides similar direct benefits to individuals—students in need of financing their education.

The Board expected few types of loan programs or finance authorities to meet the spirit of the exception provided in paragraph .116, even if making and collecting loans are the primary operations of the enterprise. A finance authority that facilitates financing by serving as an intermediary or conduit generally would not qualify even if the project to be financed indirectly benefits the government or its constituents. For example, an authority created to finance government building projects (such as state office buildings or public university dormitories) would not qualify because the direct beneficiary is the government rather than individual constituents. In the example of a public university dormitory authority, debt is issued by the authority and the proceeds are loaned to universities for their dormitory construction projects. Although the students who eventually live in the dorms will benefit from the activity, the direct beneficiary of the dormitory authority is the university itself, which is part of the governmental financial reporting entity. Such an arrangement merely facilitates the government’s financing process. The substance of the arrangement is that the government issued bonds to serve its own needs.

It is unlikely that many finance authorities operate loan programs (other than low-income housing and student loans) that qualify for the exception provided in paragraph .116. An exception might be a loan program for elderly

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persons who are unable to pay their property taxes. (See Examples F and G in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.25.1]

.708-4 Q—How should the loan activity of a loan program that qualifies for inclusion in the operating activities category be presented in relationship to the cash flows of the other operating activities?

A—There are no provisions in this section detailing how program loan activities should be presented in the operating activities category. The minimum level of detail required is listed in paragraph .129 of this section and is discussed in Questions .713-2 and .713-3 in this section. For example, cash receipts from customers should be presented separately from other operating cash receipts, and cash payments to suppliers should be presented separately from other operating cash payments. Because borrowers in a qualifying loan program are neither suppliers nor customers (they are direct beneficiaries of the program), it would be appropriate to separately identify cash disbursements and collections of loans. It would also be useful to separate the collection of principal from interest received. The principal and interest components of normal loan collections are separately identified in the investing activities category. (See Example G in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.25.2]

.708-5 Q—What are the factors for determining whether a grant received meets the criteria for classification as an operating activity?

A—In this section, the view was adopted that grants received generally should be treated as subsidies. Capital grants should be considered capital and related financing activities, and all other grants should be considered noncapital financing activities. However, it was recognized that certain arrangements that are called “grants” appear to be contracts for services. Grants of this type should be classified as operating activities. The determination of whether a grant is, in substance, a purchase of services requires the exercise of judgment. To be classified as an operating cash inflow, the grant should finance a program that the grantee would not otherwise undertake (for example, a senior citizens’ transportation service). Therefore, the grant is not subsidizing an existing program. It reimburses the costs of a new program, whose activity is inherently part of the operations of the *grantor*. A grant with these characteristics should be considered an “operating grant”

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as described in paragraph .114 of this section. (See Example D in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.27.4]

.709 Cash Flows from Noncapital Financing Activities

- .709-1 Q—Would property taxes levied by a hospital district for care of indigent patients be classified as an operating activity?

A—No. Property taxes, unless levied for capital purposes, should be classified as a noncapital financing activity (paragraph .119d of this section). Even if the amount levied is calculated to finance estimated costs of care of the indigent, it is not a charge for services. Instead, property tax payers are financing the care of the indigent. The nature of the receipt is a subsidy, which is defined in this section as a noncapital financing activities inflow. (See Example I in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.22.2]

- .709-2 Q—How should a lender and a borrower present the cash flows resulting from interfund loans?

A—This section presumes that interfund cash flows are noncapital financing activities. The exceptions are specific: interfund services provided and used, interfund reimbursements, and receipts for capital purposes. Therefore, interfund loan activity should be classified as noncapital financing. However, if the loan is intended to finance capital acquisition, construction, or improvement, the borrower should classify the related cash flows in the capital and related financing activities category.

For example, for the borrower, an interfund loan received to cover a temporary cash deficiency would be considered a noncapital financing activity; however, an interfund loan received for the purchase of new vehicles would be considered a capital and related financing activity. In both cases, the lender would report those cash flows as noncapital financing activity.

[GASBIG 2015-1, Q2.24.2]

- .709-3 Q—How should interfund transfers be reported in the statement of cash flows?

A—The cash portion of an interfund transfer out should be presented in the noncapital financing activities category. A governmental enterprise fund *receiving* a transfer to be used for the specific purpose of defraying the cost of

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acquiring, constructing, or improving capital assets, however, should classify the cash inflow as a capital and related financing activity.

Noncash transfers should not be presented within the statement of cash flows. Instead, they should be presented in a separate schedule of noncash investing, capital, and financing activities. (See Questions .714-2 and

.714-3 in this section for a discussion of noncash disclosures; see also Example B in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.26.1]

.710 Cash Flows from Capital and Related Financing Activities

.710-1 Q—Should debt service interest payments that are capitalized be reported in the capital and related financing activities category as an outflow for interest on capital debt or as part of the capital acquisition outflow?

A—All interest payments associated with “capital debt” should be presented in the capital and related financing activities category as “cash payments to lenders and other creditors for interest.” The presentation of cash payments for interest should not be affected by the transaction’s presentation on the operating statement or the statement of net position/balance sheet. The fact that the amount of the cash flow is capitalized does not change the fact that the cash was paid to a lender for interest.

[GASBIG 2015-1, Q2.29.5]

.711 Cash Flows from Investing Activities

.711-1 Q—If a certificate of deposit that does not meet the definition of a cash equivalent automatically rolls over at maturity, is there a cash flow?

A—No. A cash flow does not occur unless there is a deposit to or withdrawal from cash or a cash equivalent. Therefore, a rollover does not affect the statement of cash flows. The certificate of deposit is merely converted from one investment instrument to another.

[GASBIG 2015-1, Q2.15.5]

.711-2 Q—If a trustee is administering a restricted investment portfolio for a governmental enterprise, should the investing activities be presented in the governmental enterprise’s statement of cash flows?

A—Yes. The investing cash flows should be presented on the statement of cash flows as if the governmental enterprise were managing the

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investments. The trustee is managing investments that belong to the governmental enterprise and are held in the name of the governmental enterprise, even though they are restricted. The investment portfolio is presented in the governmental enterprise's statement of net position/balance sheet, and its performance is presented in the governmental enterprise's operating statement. This arrangement is different from a cash management or investment pool arrangement, in which a fund manager commingles the assets provided by others. In a pool, each participant owns a share of the pooled assets and their earnings, rather than specific securities. (See Question .705-3 in this section.)

[GASBIG 2015-1, Q2.15.6]

- .711-3 Q—How should the statement of cash flows display the net increase (decrease) in the fair value of investments?

A—The increase (decrease) in the fair value of investments is not a cash flow. However, changes in fair value (or amortization) of investments that meet the definition of cash equivalents in paragraph .106 of this section should be reported as cash flows from investing activities. These changes are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. When the net increase (decrease) in the fair value of investments is reported in the change statement as part of operating income, the change is presented as an element in the reconciliation of operating income to net cash provided by operating activities. (See also Question .711-5 in this section.)

[GASBIG 2015-1, Q2.15.7]

- .711-4 Q—How should interest earnings on capital debt proceeds that are temporarily invested before being used for construction be classified?

A—Investment earnings should be considered an investing activity. Classification of cash flows usually should be based on the nature of the transaction.

[GASBIG 2015-1, Q2.19.2]

- .711-5 Q—Where should gains and losses on investments be presented?

A—Gains and losses, per se, should not be presented in the statement of cash flows. Rather, proceeds from the sale of the investments (including

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gains and net of losses) should be reported as a cash inflow in the investing activities category. (See also Question .711-3 in this section.)

[GASBIG 2015-1, Q2.21.1]

~~.711-6 Q—Investment earnings are sometimes (although rarely) included in operating income. Should the cash flows be classified as an operating activity?~~

~~A—No. Investment earnings should be classified in the investing activities category.~~

~~The statement of cash flows is not intended to replicate, on a cash basis, the operating statement. It is intended to complement the accrual-basis financial statements. The classification of cash flows provides functional information about financing and investing activities. This approach concentrates on the underlying nature of a transaction. Therefore, earnings on investments should be classified as investing activities, regardless of why the investments are made, what the earnings are used for, and where the income is reported on the operating statement. (Except that interest received on qualifying program loans should be classified as operating inflows. See Question .708-3 in this section.)~~

~~If investment earnings are included in operating income, the related cash flows should be presented as a deduction from operating income in the reconciliation of operating income to net cash flow from operating activities (just as depreciation is adjusted).~~

~~[GASBIG 2015-1, Q2.21.2] .711-7 Superseded by GASBS XX, ¶31~~

.711-6 Q—How should interest on cash and cash equivalents be classified?

A—Interest earnings, by nature, are an investing activity; therefore, interest on cash and cash equivalents should be considered an investing activity. The discussion in the answer to Question .711-6 in this section is relevant to this question. Even though cash and cash equivalents are not investments, the interest they earn should be classified the same as interest earned on investments. (See Examples A and H in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.21.3]

.711-8 Q—How should interest on customer deposits be classified?

A—Although customer deposit transactions are considered operating activities (see Question .707-10 in this section), interest earned on the depos-

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its is an investing activity. ~~As discussed in Question .711-6 in this section,~~
~~regardless~~ Regardless of whether the customer deposits are held as
cash, investments, or restricted assets, the interest should be classified as
investing activities. (However, distribution of the interest to customers is
an operating activity because the cash flow does not meet the definition
of any of the other categories.)

[GASBIG 2015-1, Q2.21.4], as amended by GASBS XX, ¶31

.712 Distinguishing between Capital and Noncapital Financing

.712-1 Q—Are there cash flows associated with bond refundings?

A—Cash flow reporting of a defeasance of debt is addressed in
paragraph .127c of this section and in Question .712-3 in this section.
Paragraph .127c presumes that the refunding transaction resulted in cash
flows. If the proceeds from the new bond issue are not converted into cash
or a cash equivalent of the governmental enterprise before being used to
defease the obligations associated with the refunded debt, there would be
no cash flows to present in the statement of cash flows. (There are cash
flows resulting from bond proceeds' being placed in escrow if the escrow
assets are reported on the balance sheet.) If the transaction does not affect
cash or cash equivalents, it should be disclosed as a noncash financing
activity. (See Questions .714-2 and .714-3 in this section on noncash
disclosures; see also Examples A and D in nonauthoritative paragraph
.901 of this section.)

[GASBIG 2015-1, Q2.15.3]

.712-2 Q—Should debt proceeds be classified in the capital and related financing
activities category if the proceeds are distributed to component units for
capital purposes?

A—No. The debt proceeds should be presented as a noncapital financing
cash inflow, and subsequent debt service payments should be presented
as noncapital financing cash outflows. Whether a financing activity meets
the definition of capital depends on the use of the proceeds. If a
governmental enterprise distributes the proceeds, it is not using the
proceeds to acquire, construct, or improve its own capital assets.
Therefore, the debt should not be considered capital debt for purposes of
the statement of cash flows. Distribution of debt proceeds is similar to grant
transactions. With regard to grant transactions, the grantor should classify
all grants (except for certain operating-type grants) as *noncapital* financing
activities, regardless of whether the grantee uses the grant for capital or
noncapital purposes. To

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preserve classification symmetry, the proceeds of debt issued for the purpose of making grants for capital purposes should also be treated as *noncapital* financing activities.

[GASBIG 2015-1, Q2.19.1]

.712-3 Q—How should bond refunding transactions be presented?

A—Paragraph .127c of this section provides guidance for classifying bond refunding transactions:

In a defeasance of debt, the proceeds of a refunding debt issue used to refund capital debt should be reported as a cash inflow in the capital and related financing category and the payment to defease the existing capital debt should be reported as an outflow in that category. Similarly, subsequent principal and interest payments on the refunding debt should also be reported as cash outflows in the capital category. If the refunding issue is in excess of the amount needed to refund the existing capital debt, the total proceeds and the subsequent principal and interest payments should be allocated between the capital category and the noncapital financing category based on the amounts used for capital and noncapital purposes.

If the new bonds result in an in-substance defeasance and cash flows actually occur (see Question .712-1 in this section), there should be symmetry in reporting the cash flows related to the refunding. The outflow to a trustee or fiscal agent to defease the debt should be presented in the same category as the debt service payment on the old debt. The proceeds should be classified as an inflow of the same category. The new debt assumes the characteristics of the old debt. Subsequently, the new debt issue should be classified in the same manner as the defeased debt. For example, if the original debt was for capital purposes, the new debt should be considered capital debt.

However, paragraph .127c explains that an entire refunding issue may not assume the characteristics of the old debt if the refunding debt exceeds the amount needed to defease the existing debt. If debt is issued for a dual purpose—to defease a noncapital debt issue and to finance new construction, for example—it should be allocated according to its purposes. The portion required to defease the old debt assumes the characteristics of the old debt. The remainder should be evaluated according to its purpose and is classified appropriately

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(In this case, the remainder would be classified as a capital financing activity.) (See Example A in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.19.3]

- .712-4 Q—Should a subsidy received to finance capital debt service be classified as capital or noncapital financing?

A—The subsidy should be reported by the recipient as an inflow in the capital and related financing activities category. A subsidy received specifically to finance capital debt service payments is an indirect way of financing capital acquisition, construction, or improvement. Therefore, it should be reported in the same way as a capital grant or other contribution received to defray capital costs. (See Example I in nonauthoritative paragraph .901 of this section.)

[GASBIG 2015-1, Q2.19.4]

- .712-5 Q—Should property taxes levied specifically for capital debt service requirements be classified as capital or noncapital financing?

A—Paragraph .122e of this section identifies property taxes received specifically to finance the acquisition, construction, or improvement of capital assets as a capital and related financing activities inflow. Property taxes levied specifically for capital debt service are indirectly financing the costs of capital acquisition, construction, or improvement by directly financing debt service. Therefore, the taxes received should be classified as capital and related financing activities. This link is necessary for symmetry in cash flow reporting.

[GASBIG 2015-1, Q2.22.1]

.713 Content and Form of a Statement of Cash Flows

- .713-1 Q—Can governments “indirectly” determine direct method cash flows?

A—Yes. Generally, governments can estimate certain direct method cash flow amounts by adjusting for beginning and ending receivables and payables. Nonauthoritative paragraph .902 of this section illustrates how that can be done.

[GASBIG 2015-1, Q2.17.1]

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.713-2 Q—What level of detail should be provided for individual line items in the statement of cash flows?

A—Gross cash flow information generally is required. Therefore, related transactions should not be netted. For example, bond proceeds should be reported separately from capital purchases made with the proceeds. Beyond that, the level of detail in the descriptions of the categories (in paragraphs .114–.126 of this section) and illustrated in nonauthoritative paragraph .901 provides a guideline for determining the appropriate level of detail in the statement of cash flows. For example, separating the principal and interest portions of debt service payments is considered useful.

The most specific guidance in this section as to level of detail in reporting is provided in the guidance for reporting cash flows from operating activities (paragraph .129 of this section). The discussion provides seven classes of information that serve as a minimum level of required detail.

- a. Cash receipts from customers
- b. Cash receipts from interfund services provided
- c. Other operating cash receipts, if any
- d. Cash payments to other suppliers of goods or services
- e. Cash payments to employees for 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 or received
- g. Other operating cash payments, if any.

In all cases, governmental enterprises are encouraged to provide further detail if the information would be useful.

[GASBIG 2015-1, Q2.29.1]

.713-3 Q—Should the cash outflows for payroll taxes and employee-related costs, such as fringe benefits, be reported with either “cash payments to employees for services” or “cash payments to other suppliers of goods or services,” or should they be reported separately?

A—Paragraph .129 of this section requires presentation of cash flows from operating activities by major class, and lists a minimum of seven classes. (See Question .713-2 in this section.) One of the major classes is “cash payments to employees for services.” This section does not provide a definition for this or any other of the major classes referred to in paragraph .129. It is reasonable to group cash payments for payroll taxes and fringe benefits with cash payments to employees, even though the cash is

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not paid directly to the employees. Payroll taxes and fringe benefits are paid on behalf of employees and are an integral part of employment costs.

On the other hand, further detail is encouraged if it would be useful. Therefore, it may be helpful to present cash flows for payroll taxes and fringe benefits *separately* from payments to employees if the amounts are significant.

[GASBIG 2015-1, Q2.29.2]

- .713-4 Q—If an internal service fund purchases supplies from both vendors and other funds of the primary government, should it report its purchases from other funds separately from its purchases from vendors?

A—Paragraph .129 of this section states that interfund services provided and used should be presented separately from other operating transactions. The intent was to highlight interfund activity. Although the cash flows between the internal service fund and other funds of the government may seem identical to transactions with outside suppliers or vendors, the fact that the activity is “intra-entity” is noteworthy.

[GASBIG 2015-1, Q2.29.3]

- .713-5 Q—If a state governmental enterprise (such as a workers’ compensation fund) has receipts from within the state’s entity and also from local government participants, should a distinction be made between “customers” inside and outside the entity?

A—Yes. Interfund activity should be distinguished from external operating transactions. As discussed in Question .713-4 in this section, paragraph .129 of this section states that cash flows from interfund services provided and used should be presented separately from other operating transactions. (See Example J in nonauthoritative paragraph .901 of this section.) However, there is no requirement to separate the cash flows with discretely presented component units from those involving external parties. Note, however, that paragraph ~~.217~~220 of Section 2200 requires disclosure of the nature and amount of significant transactions between the primary government and each major component unit.

[GASBIG 2015-1, Q2.29.4]

- .713-6 Q—Under the direct method for reporting cash flows from operating activities, are governments required to separately report transactions with discretely presented component units?

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A—No. Paragraph .129 of this section requires separate reporting of cash flows from interfund services provided and used but does not require a similar distinction for transactions with component units. Governments may provide those additional details but are not required to do so. However, paragraph ~~.217~~220 of Section 2200 requires disclosure of the nature and amount of significant transactions between the primary government and each major component unit.

[GASBIG 2015-1, Q2.29.6]

.713-7 Q—Can the reconciliation of operating income to net cash flow from operating activities be presented in notes to the financial statements?

A—No. The reconciliation is a requirement of cash flow reporting and should be presented as part of the statement of cash flows, as a separate schedule (preferably on the same page). Paragraph 67 of the Statement 9 Basis for Conclusions discusses this topic.

[GASBIG 2015-1, Q2.30.1]

.713-8 Q—In reconciling operating income to operating cash flows, should the changes in all asset and liability accounts and in deferred outflows of resources and deferred inflows of resources be reconciled?

A—Only those asset, deferred outflows of resources, liability, and deferred inflows of resources accounts that affect operating cash flow items should be included in the reconciliation of operating income to net cash flow from operating activities. For example, if a governmental enterprise holds a receivable related to grants from another government, that receivable should not affect cash flows from operating activities; therefore, it should not be a reconciling item. The receivable does, however, have an effect on the noncapital financing activities presentation (assuming the grant is an operating subsidy and not a capital grant). Grant revenues reported as nonoperating income in the flows statement should be adjusted by the receivable amount to arrive at the actual cash flows from the grant.

[GASBIG 2015-1, Q2.30.2]

.713-9 Q—How should the changes in an employer's liability to employees for defined benefit pensions or defined benefit postemployment benefits other than pensions (OPEB) and an employer's deferred outflows of resources and deferred inflows of resources related to pensions or OPEB be reported in a statement of cash flows and its accompanying schedule that reconciles operating income to net cash provided by operating activities?

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A—An employer’s cash contributions during its fiscal year to a defined benefit pension plan that is administered through a trust that meets the criteria in paragraph .101 of Section P20, or to a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section P50, should be reported in the statement of cash flows as cash flows from operating activities, as should cash outflows for amounts paid for pensions or OPEB regardless of whether the defined benefit pension plan or defined benefit OPEB plan is administered through a trust that meets the specified criteria. In addition, the changes in each of the following should be presented separately in the schedule that provides the reconciliation of operating income to net cash flows from operating activities: (a) the employer’s liability to employees for defined benefit pensions or defined benefit OPEB, (b) the employer’s deferred outflows of resources related to pensions or OPEB, and (c) the employer’s deferred inflows of resources related to pensions or OPEB.

[GASBIG 2017-1, Q4.1]

.714 Information about Noncash Investing, Capital, and Financing Activities

.714-1 Q—How should commodities donated to a school lunch program be reported if they are recorded as both an *operating* expense and *nonoperating* revenue on the operating statement?

A—Commodities are noncash items that should not be presented in the statement of cash flows. However, the amount of the expense will appear as a reconciling adjustment in the reconciliation of operating income to net cash flow from operating activities. (See Exhibit 29, in nonauthoritative paragraph .903 of Section 2200.)

[GASBIG 2015-1, Q2.20.4]

.714-2 Q—When is disclosure of noncash information required?

A—Paragraph .133 of this section requires that “information about all investing, capital, and financing activities of a governmental enterprise during a period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period should be reported.” Disclosure of noncash information is required if a transaction meets *all* of these three characteristics:

- a. *Is the transaction noncash?* Questions .705-13, .707-1, .707-2, .711-1, .711-2, and .712-1 in this section provide guidance on identifying a cash flow. Some transactions include cash and noncash components. Only

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the cash portion of the transaction should be presented in the statement of cash flows. The noncash portion should be evaluated further.

- b. *Does the transaction affect recognized assets or liabilities?* Noncash transactions that result in the recognition of assets and liabilities should be analyzed. Changes in the balance of an asset or a liability that are not attributable to cash transactions should be considered noncash transactions. For example, when an enterprise fund enters into a lease for a building, a noncash transaction occurs because a liability for a lease obligation and a lease asset for the right to use the building are recorded in the statement of net position.
- c. *Is the transaction an investing, capital, or financing activity?* A noncash transaction should be disclosed only when it (had it been a cash transaction) meets the definition of the investing, capital and related financing, or noncapital financing activities category. For example, a lease transaction typically meets the definition of a capital and related financing activity. However, a customer account receivable balance that was used to offset an account payable to that customer is an operating activity and is not required to be disclosed. (See Examples A–D and G–I in nonauthoritative paragraph .901 of this section.)

Examples of noncash transactions include acquiring capital assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller or purchasing on credit and taking delivery of vehicles in the current period and paying for them in a future period, obtaining a lease asset by entering into a lease, refunding bond proceeds delivered directly to an irrevocable trust, changes in fair value of investments or derivative instruments, receiving donated capital assets, and transfers of capital assets between funds.

[GASBIG 2015-1, Q2.32.1, as amended by GASBS 87, ¶20]

.714-3 Q—How should noncash transactions be reported?

A—Paragraph .133 of this section states that noncash information “should be presented in a separate schedule, which may be in either a narrative or a tabular format, and it should clearly describe the cash and noncash aspects of transactions involving similar items. The schedule may be presented, if space permits, on the same page as the statement of cash flows.” Therefore, the format for presenting the noncash disclosures is flexible. For example, a governmental enterprise with only one transaction to disclose may find it most effective to describe the transaction in a sentence or two. Another governmental enterprise, with several noncash financing activities, may find it useful to arrange the information in a column. Whatever format is chosen, the disclosures should be made in a schedule to the

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statement of cash flows (preferably on the same page). (See Examples A–D and G–I in nonauthoritative paragraph .901 of this section.) As discussed in paragraph 68 of the Basis for Conclusions of Statement 9, the disclosures should not be separated from the statement of cash flows by being presented in the notes to the financial statements.

[GASBIG 2015-1, Q2.32.2]

SEGMENT INFORMATION

SECTION 2500

Sources: GASBS 34, GASBS 37, GASBS XX, GASBIG 2015-1

.101 Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. For purposes of this disclosure, a segment is an *identifiable activity* (or grouping of activities), as discussed in Section 2200, “Comprehensive Annual Financial Report,” footnote 1921, reported as or within an enterprise fund or an other stand-alone entity that has one or more bonds or other debt instruments (such as certificates of participation) outstanding,¹ with a revenue stream pledged in support of that debt. In addition, the activity’s revenues, expenses, gains and losses, assets, and liabilities are required² to be accounted for separately. Disclosure requirements for each segment should be met by identifying the types of goods and services provided and by presenting condensed financial information in the notes, including the elements in a through c below.

- a. Condensed statement of net position:
 - (1) Total assets—distinguishing between current assets, capital assets, and other assets. Amounts receivable from other funds or component units should be reported separately.
 - (2) Total deferred outflows of resources.
 - (3) Total liabilities—distinguishing between current liabilities and long-term liabilities. Amounts payable to other funds or component units should be reported separately.
 - (4) Total deferred inflows of resources.
 - (5) Total net position—distinguishing among net investment in capital assets, restricted (separately reporting expendable and nonexpendable components), and unrestricted.
- b. Condensed statement of revenues, expenses, and changes in net position:
 - (1) Operating revenues (by major source).
 - (2) Operating expenses—~~Depreciation~~ identifying depreciation (including any amortization) ~~should be identified~~ separately.
 - (3) Operating income (loss).
 - (4) ~~Nonoperating~~ Noncapital subsidies (detailed).
 - (5) Operating income (loss) and noncapital subsidies.
 - (4)(6) Other nonoperating revenues (expenses)—with separate reporting of major revenues and expenses.

¹ Segment reporting is not required when an individual fund both is a segment and is reported as a major fund. [GASBS 34, fn48, as amended by GASBS 91, ¶10]

² The requirement for separate accounting should be imposed by an external party. For example, accounting and reporting requirements commonly are set forth in bond indentures. [GASBS 37, ¶17]

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- ~~(5) Capital contributions and additions to permanent and term endowments.~~
 - ~~(6)(7) Special and extraordinary Unusual or infrequent items (detailed).~~
 - ~~(7) Transfers.~~
 - ~~(8) Change~~Increase (decrease) in net position.
 - ~~(9) Beginning net~~Net position—beginning of period.
 - ~~(10) Ending net~~Net position—end of period.
- c. Condensed statement of cash flows:
- (1) Net cash provided (used) by:
 - (a) Operating activities.
 - (b) Noncapital financing activities.
 - (c) Capital and related financing activities.
 - (d) Investing activities.
 - (2) Beginning cash and cash equivalent balances.
 - (3) Ending cash and cash equivalent balances.

Determining whether to provide segment disclosures about component units that use enterprise fund accounting and reporting standards is a matter of professional judgment. 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. [GASBS 34, ¶122, as amended by GASBS 37, ¶17 ~~and~~, GASBS 63, ¶7 and ¶8, and GASBS XX, ¶30]

.102 Governments that want to present disaggregated data for their multiple-function enterprise funds beyond what is required for segment reporting (for example, net program cost information) are encouraged to present (as supplementary information) a statement of activities (as discussed in Section 2200, paragraphs .126 ~~—~~ .156 ~~.127—~~ .157). Special-purpose governments engaged only in business-type activities or only in business-type and fiduciary activities also are encouraged to present this information. (See Section Sp20, "Special-Purpose Governments," paragraphs .113, .114, and .116.) [GASBS34, ¶123, as amended by GASBS 84, ¶14 and GASBS XX, ¶9 and ¶10; GASBS XX, ¶9 and ¶10]

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GASB IMPLEMENTATION GUIDES

.701 Note Disclosures

.701-1 Q—A city operates an electric department, a water and sewer department, and a natural gas department. Each utility operation has issued bonds that are repayable solely from the revenues of the respective operations. Are separate enterprise funds required for each of those departments?

A—No. Paragraph .103a of Section Ut5, “Utilities,” requires only that an enterprise fund be used to report the activities but does not require *separate* funds for each activity. However, each utility operation may be required to be reported separately in the government-wide statement of activities if they satisfy the criteria in paragraph ~~.127~~128 of Section 2200 as different identifiable activities. In addition, disclosure of segment information, as discussed in paragraph .101 of this section may be required.

[GASBIG 2015-1, Q7.50.10]

.701-2 Q—A city uses a single enterprise fund to account for its water and sewer operations. There are outstanding revenue bonds that pertain to the water reservoir and distribution lines. The sewer operation has no long-term debt attributable to it. Although both operations are accounted for in a single fund, the revenue bond indenture requires the city to maintain separate asset, liability, revenue, expense, gain, and loss accounts for the water operations. What are the segment reporting requirements for the Water and Sewer Fund?

A—The disclosures set forth in paragraph .101 of this section are required for the water operation, but not for the sewer operation. The primary motive in requiring the segment disclosures was to ensure the availability of information about activities financed by revenue-backed debt, even if the activity was not reported in a separate fund. Therefore, even though the sewer operation is an identifiable activity with its own asset, liability, revenue, expense, gain, and loss accounts, the segment disclosures in paragraph .101 are not required because of the absence of revenue-backed debt. (See also Question .701-4 in this section.)

[GASBIG 2015-1, Q7.86.1]

.701-3 Q—A public university has 15 residence halls on its campus, 10 of which have individual bonded debt secured by the room fee revenues of the specific dorm. Is the “identifiable activity” the entire group of 15 residence halls, or only those with revenue bonds outstanding?

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A—Paragraph .101 of this section requires governments to disclose information about “segments” of enterprise funds in the notes to financial statements. One essential characteristic of a segment is that it is an “identifiable activity.” The “identifiable activity” is the *source* of the pledged revenues. If the bond indenture specified that the pledged revenues were the fees from all the dorms, the dorm *system* would be the identifiable activity. In this case, however, because each dorm’s debt is secured by its own revenues, segment disclosures should be made for *each* of the 10 residence halls that meet *all* the criteria in paragraph .101. The primary purpose of the disclosure required by paragraph .101 is to provide information about “coverage” of pledged revenues, not to disaggregate all of the operating results of enterprise funds.

[GASBIG 2015-1, Q7.86.2]

- .701-4 Q—A state university’s food service facilities were financed by revenue bonds. The bond indenture includes a requirement to provide to the trustee a financial statement showing the coverage of the pledged revenues to the operating expenses of the facilities. Is the university required to make the segment disclosures set forth in paragraph .101 of this section?

A—No. Paragraph .101 states that an activity is a segment if its revenues, expenses, gains and losses, and assets and liabilities are required to be accounted for separately. Therefore, because the requirement in this case is limited to only revenues and expenses, the university would not be required to make segment disclosures for its food service operations.

[GASBIG 2015-1, Q7.86.3]

- .701-5 Q—To meet the requirement for segment reporting, is it necessary for the debt to be secured *solely* by the pledged revenue stream, or can it also be backed by the full faith and credit of the issuing government?

A—The definition of a segment in paragraph .101 of this section includes a requirement that there is a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt. It is not a requirement that the debt be backed solely by the pledged revenues. The additional “full faith and credit” support does not negate the requirement to make the segment disclosures if all the criteria in paragraph .101 are met.

[GASBIG 2015-1, Q7.86.4]

- .701-6 Q—A city operates under an internal policy that requires separate accounting for assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses related to any activity that raises

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revenues pledged as security for debt. Is the city required to disclose segment information relative to those activities?

A—No. Footnote 2 of this section clarifies that the separate accounting requirement should be imposed by an *external* party. The city should not include its “segment-like” information in the required segment disclosure, but may present the information in a separate note or as supplementary information without referring to the condensed financial information as “segment” information.

[GASBIG 2015-1, Q7.86.5]

.702 Other Disaggregated Data

No questions assigned.

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE

SECTION 2600

Sources: NCGAS 1, GASBS 14, GASBS 31, GASBS 34, GASBS 37, GASBS 39,
GASBS 44, GASBS 48, GASBS 51, GASBS 61, GASBS 72, GASBS 80,
GASBS 90, GASBS 97, GASBS XX, GASBTB 2004-1, GASBIG 2015-1, GASBIG
2016-1, GASBIG 2017-1, GASBIG 2019-2

See also: Section 2100, “Defining the Financial Reporting Entity”
Section 2200, “Comprehensive Annual Financial Report”
Section J50, “Accounting for Participation in Joint Ventures and Jointly
Governed Organizations”

Statement of Principle Reporting Entity and Component Unit Presentations

- a. A comprehensive annual financial report should be prepared and published, covering all funds and activities of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity—including introductory section, management’s discussion and analysis (MD&A), basic financial statements, required supplementary information other than MD&A, appropriate combining and individual fund statements, schedules, narrative explanations, and statistical section. The reporting entity is the primary government (including its blended component units) and all discretely presented component units presented in accordance with Section 2100.
- b. The minimum requirements for MD&A, basic financial statements, and required supplementary information other than MD&A are:
 - (1) Management’s discussion and analysis.
 - (2) Basic financial statements. The basic financial statements should include:
 - (a) Government-wide financial statements.
 - (b) Fund financial statements.
 - (c) Notes to the financial statements.
 - (3) Required supplementary information other than MD&A.
- c. As discussed in Section 2100, the financial reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through exercise of management’s professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading. In such instances, that organization should be included as a component unit. The reporting entity’s government-

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wide financial statements should display information about the reporting government as a whole distinguishing between the total primary government and its discretely presented component units as well as between the primary government's governmental and business-type activities. The reporting entity's fund financial statements should present the primary government's (including its blended component units, which are, in substance, part of the primary government) major funds individually and nonmajor funds in the aggregate. Fiduciary funds, including fiduciary component units, should be reported only in the statements of fiduciary net position and changes in fiduciary net position.

- d. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions of Section 2100 should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government.

[NCGAS 1, ¶128, as amended by GASBS 14, ¶11, ¶19, ¶43, and ¶65; GASBS 14, ¶12 and ¶66, as amended by GASBS 61, ¶4; GASBS 34, ¶6, ¶14, and ¶15; GASBS 34, ¶13 and ¶125, as amended by GASBS 63, ¶8 and GASBS 84, ¶5; GASBS 44]

Introduction

.101 Section 2100 establishes standards for defining the **financial reporting entity**.¹ The requirements of this section apply at all levels to all state and local governments. This section applies to financial reporting by **primary governments**, governmental **joint ventures**, **jointly governed organizations**, and **other stand-alone governments**; and it applies to the separately issued financial statements of governmental **component units**. This includes governmental enterprises, public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. In addition, this section should be applied to all governmental and nongovernmental component units when they are included in a governmental financial reporting entity. (See paragraphs .103, .106, .124, and .125 for an explanation of how

¹Terms defined in Section 2100, paragraphs .501–.522, are shown in **boldface type** the first time they appear in this section.

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organizations other than primary governments should apply this section.) Section J50 establishes standards for reporting governments' participation in joint ventures. Section 2200 requires governments to provide government-wide and fund financial statements. The reporting entity's government-wide financial statements should display information about the reporting government as a whole, distinguishing between the primary government and its **discretely presented** component units as well as between the primary government's governmental and business-type activities. The reporting entity's fund financial statements should present the primary government's (including its **blended** component units, which are, in substance, part of the primary government) major funds individually and nonmajor funds in the aggregate. Fiduciary funds, including fiduciary component units, should be included only in the statements of fiduciary net position and changes in fiduciary net position. [GASBS 14, ¶1, ¶9, and ¶11; GASBS 34, ¶6, ¶14 and ¶15; GASBS 34, ¶13 and ¶125, as amended by GASBS 63, ¶8 and GASBS 84, ¶5]

Definitions of the Financial Reporting Entity and Component Units

.102 Section 2100 states that the financial reporting entity consists of the primary government and organizations for which the primary government is **financially accountable**. (See paragraphs .120–.137 of Section 2100.) In addition, the primary government may determine through exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit. (See paragraphs .140–.142 of Section 2100.) Component units are **legally separate organizations**² for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. [GASBS 14, ¶12 and ¶20, as amended by GASBS 61, ¶4; GASBS 84, ¶7, as amended by GASBS 97, ¶5; GASBS 97, ¶4]

.103 The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. Although this section is written from the perspective of the primary government, its requirements apply to the separately issued financial statements of governmental component units, joint ventures, jointly governed organizations, and other stand-alone governments. These organizations should apply the provisions of this section as if they were a primary government. To accomplish this goal, the reporting entity's financial statements should present the government-wide financial

²A component unit may be a governmental organization (except those that meet the definition of a primary government in Section 2100, paragraph .112), a nonprofit corporation, or a for-profit corporation. [GASBS 14, fn4]

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statements, providing an overview of the discretely presented component units, and the fund financial statements, providing information about the major funds individually and nonmajor funds in the aggregate, of the primary government (including its blended component units, which are, in substance, part of the primary government). [GASBS 14, ¶11 and ¶12; GASBS 34, ¶6; GASBS 61, ¶4]

.104 The financial data of the primary government (and its blended component units as discussed in paragraphs .112–.114) should be reported in accordance with the provisions of Section 2200. This section does not modify fund reporting requirements referred to in that section. Regardless of entity considerations, a primary government should report its fiduciary funds according to Section 2200, paragraphs .200–.203. [GASBS 14, ¶19, as amended by GASBS 35, ¶5 and GASBS 84, ¶5; GASBS 63, ¶7; GASBS 84, ¶20, ¶23, and ¶24; GASBS 84, ¶22–¶25, as amended by GASBS 92, ¶9]

Reporting Component Units

.105 Financial statements of the reporting entity should provide an overview of the entity, yet allow users to distinguish between the primary government and its component units. Because of the closeness of their relationships with the primary government, component units that meet the criteria of paragraph .113 should be blended as though they are part of the primary government and therefore included in both government-wide and fund financial statements. (See paragraphs .112–.114.) However, most component units, including those that meet the criteria of Section 2100, paragraph .142, should be discretely presented and reported in the government-wide statements. (See paragraphs .107–.111.) Fiduciary component units, however, should be included only in the fund financial statements with the primary government's fiduciary funds. [GASBS 14, ¶42; GASBS 34, ¶6 and ¶125, as amended by GASBS 84, ¶5; GASBS 39, ¶7]

.106 An organization that is a component unit of a financial reporting entity may have component units of its own. The component unit financial data that are incorporated into a reporting entity's financial statements should include the data from all of its component units. In effect, this section should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government. For example, a school district may be a component unit of a municipality because the municipality **appoints** the governing board of the district and the district imposes a **financial burden** on the municipality. If the school district is financially accountable for another organization (a building authority, for example), the district should apply the definition and display provisions of this section to the building authority. The municipality should apply the definition and display provisions of this section to the school district's "entity," which includes the building authority. The building authority is not a component unit of the municipality per se; however, its financial data would be included in the primary government's financial reporting entity as a part of the school district. When reported in the fiduciary fund financial statements of a primary government, a fiduciary component unit should include the combined information of its own

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component units that are fiduciary component units. That combined information should be aggregated with the primary government's fiduciary funds based on the classifications of fiduciary funds. (See paragraphs .128–.134 of Section 1300, "Fund Accounting.") [GASBS 14, ¶43; GASBS 84, ¶26]

Discrete Presentation of Component Units

.107 As noted in paragraph .105, most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in columns and rows separate from the financial data of the primary government. Financial data for fiduciary component units should be reported only in the fund financial statements in the primary government's statements of fiduciary net position and changes in fiduciary net position. That data should be ~~reported using~~presented applying the economic resources measurement focus and accrual basis of accounting. (See Section 1600, "Basis of Accounting," paragraph .138127.) All other discretely presented component units should be reported only in the government-wide financial statements. The government-wide statement of net position and statement of activities should include one or more columns to display the combined data of the discretely presented component units, ~~prepared using~~presented applying the economic resources measurement focus and accrual basis of accounting. The discrete column(s) should be located to the right of the total column of the primary government, distinguishing between the financial data of the primary government (including its blended component units) and those of the discretely presented component units by providing descriptive column headings. [GASBS 14, ¶44, as amended by GASBS 35, ¶5; GASBS 34, ¶6, ¶12, and ¶16, as amended by GASBS XX, fn10; GASBS 34, ¶14; GASBS 34, ¶106 and ¶125, as amended by GASBS 63, ¶8 and GASBS 84, ¶5; GASBS 34, ¶107, as amended by GASBS XX, fn10; GASBS 34, ¶126, as amended by GASBS 63, ¶8]

Major Component Unit Information

.108 Certain information should be presented about each major component unit included in the financial reporting entity, except for fiduciary component units. The determination that a component unit is "major" should be based on the nature and significance of its relationship to the primary government. This determination generally would be based on any of the following factors: (a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered essential to financial statement users, (b) there are significant transactions with the primary government, or (c) there is a significant financial benefit or burden relationship with the primary government. ~~Major component unit reporting requirements should be satisfied by (1)~~In basic financial statements, governments should present each major component unit in a separate column in the reporting entity's statements of net position and activities, if it does not reduce the readability of the statements. If presenting each major component unit in a separate column in the reporting entity's statements of net position and activities reduces the readability of the statements, combining statements of major component units should be included in the reporting entity's basic statements after the fund financial

statements, or (3) ~~presenting condensed financial statements in the notes to the reporting entity's after the fund~~ financial statements. Nonmajor component units should be aggregated in a single column. A combining statement for the nonmajor component units is not required but may be presented as supplementary

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information. [GASBS 14, ¶51, as amended by GASBS 34, fn50, GASBS 61, ¶7, GASBS 63, ¶8, and GASBS XX, ¶33; GASBS 34, ¶126, as amended by GASBS 63, ¶8 and GASBS XX, ¶33; GASBS 34, fn49, as amended by GASBS 84, ¶5]

~~.109~~ If governments choose to present component unit information in the notes, these details should be presented, at a minimum:

~~a. Condensed statement of net position:~~

- ~~(1) Total assets—distinguishing between current assets, capital assets, and other assets. Amounts receivable from the primary government or from other component units should be reported separately.~~
- ~~(2) Total deferred outflows of resources.~~
- ~~(3) Total liabilities—distinguishing between current liabilities and long-term liabilities. Amounts payable to the primary government or to other component units should be reported separately.~~
- ~~(4) Total deferred inflows of resources.~~
- ~~(5) Total net position—distinguishing among net investment in capital assets, restricted (separately reporting expendable and nonexpendable components), and unrestricted.~~

~~b. Condensed statement of activities:³~~

- ~~(1) Expenses (by major functions and for depreciation⁴ expense, if separately reported).~~
- ~~(2) Program revenues (by type).~~
- ~~(3) Net program (expense) revenue.~~
- ~~(4) Tax revenues.~~
- ~~(5) Other nontax general revenues.~~
- ~~(6) Contributions to endowments and permanent fund principal.~~
- ~~(7) Special and extraordinary items.~~
- ~~(8) Change in net position.~~
- ~~(9) Beginning net position.~~
- ~~(10) Ending net position.~~

; GASBS 34, fn50; GASBS XX, ¶33] Superseded by GASB XX, ¶33

~~.110.109~~ In addition to the financial statement information required by paragraph .108, the notes to the financial statements should disclose, for each major component unit, the nature and amount of significant transactions with the primary government and other component units. [GASBS 34, ¶128]

³See paragraph .111. [~~superseded by GASBS 34, fn52~~XX, ¶33]

⁴As used in this section, the term depreciation (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

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~~111.110~~ The data presented for each component unit generally should be its aggregated totals, taken from the entity totals derived from the component units' statements of net position and activities. (Because component units that are engaged only in business-type activities or only in business-type and fiduciary activities are not required to prepare a statement of activities, this disclosure should be taken from the information provided in the component unit's statement of revenues, expenses, and changes in net position.) Presentation of the fund financial statements of the individual component units is not required in the reporting entity's CAFR unless such information is not available in separately issued financial reports of the component unit. [GASBS 14, ¶150; GASBS 34, ¶126, as amended by GASBS 63, ¶18; GASBS 34, fn51, as amended by GASBS 63, ¶18 and GASBS 84, ¶14; GASBS 37, ¶18]

Blending Component Units

~~112.111~~ Even though it is desirable for users to be able to distinguish between the primary government and its component units, there are nevertheless some component units that, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government. These component units should be reported as part of the primary government in both the fund financial statements and the government-wide financial statements. That is, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. This method of inclusion is known as blending. [GASBS 14, ¶152; GASBS 34, ¶16 and ¶125]

~~113.112~~ A component unit should be included in the reporting entity financial statements using the blending method in any of these circumstances:

- a. The component unit's governing body is substantively the same as the governing body of the primary government⁵³ and (1) there is a financial benefit or burden relationship between the primary government and the component unit, as described in paragraphs .127–.133 of Section 2100, or (2) management of the primary government has operational responsibility for the component unit. Management of a primary government has operational responsibility for a component unit if it manages the activities of the component unit in essentially the same manner in which it manages its own programs, departments, or agencies. Management, for purposes of

⁵³“Substantively the same” means sufficient representation of the primary government's entire governing body on the component unit's governing body so that decisions of the primary government cannot be overridden by the component unit. To illustrate, the board of a city redevelopment authority may be composed entirely of the city council and the mayor, serving ex officio. The primary government is, essentially, serving as the governing body of the component unit. On the other hand, the board of a public housing authority composed of the city mayor and two council members (from a total of 10) would not be substantively the same as the city's governing body. This criterion will rarely, if ever, apply to a state government because of the impracticality of providing sufficient representation of the state's entire governing body. [GASBS 14, fn7, as amended by GASBS 61, ¶18]

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this determination, consists of the person(s), below the level of the governing board, responsible for the day-to-day operations of the primary government (for example, a county executive or city manager).

- b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The essence of this type of arrangement is much the same as an internal service fund—the goods or services are provided to the government itself rather than to the citizenry. Usually the services provided by a blended component unit are financing services provided solely to the primary government. For example, a building authority may be created to finance the construction of office buildings for the primary government. However, a component unit that provides services to more than just the primary government should also be blended if the services provided to others are insignificant to the overall activities of the component unit. Other component units that should be blended are those that exclusively, or almost exclusively, benefit the primary government by providing services indirectly; for example, a component unit that provides services on behalf of the primary government to its employees rather than directly to the primary government itself.
- c. The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government. Repayment generally occurs through a continuing pledge and appropriation by the primary government to the component unit that, in turn, pledges those appropriation payments as the primary source of repayment for its debt.
- d. The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member,⁶⁴ as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs .120–.123 and .125–.137 of Section 2100.

[GASBS 14, ¶53, as amended by GASBS 61, ¶8 and GASBS 80, ¶5; GASBS 80, ¶5; GASBS 84, ¶7, as amended by GASBS 97, ¶5; GASBS 97, ¶4]

~~.114.113~~ Some component units account for their activities in a single fund; others use all or several fund types. If a component unit is blended, the funds of the component unit are subject to the same financial reporting requirements as the primary government's own funds. The funds of a blended component unit should be presented by including them with the primary government's other funds in the appropriate fund financial statements and combining statements, if presented. However, because the primary government's general fund is usually the main operating fund of the reporting entity and often is a focal point for report users, its general fund should be the only general fund for the reporting entity. The general fund of a blended component unit should be

⁶⁴The sole corporate member requirement in this paragraph should not be analogized to any other situations that may be considered similar to those in which the primary government is the sole corporate member, such as situations in which the primary government is the residual equity interest owner. [GASBS 80, fn1]

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reported as a special ~~revenue~~resources fund. [GASBS 14, ¶154, as amended by GASBS 34, ¶175, ¶180, and ¶182, GASBS 61, ¶19, and GASBS ~~XX, ¶128~~; GASBS 34, ¶16]

~~.115.114~~ For governments engaged only in business-type activities or only in business-type and fiduciary activities that use a single column for financial statement presentation of their business-type activities, a component unit that meets a criterion for blending in paragraph .113 of this section may be blended by consolidating its financial statement data within the single column of the primary government and presenting condensed combining information in ~~the~~ notes to the financial statements. The condensed combining information should include the following details, at a minimum:

- a. Condensed statement of net position:
 - (1) Total assets—distinguishing among current assets, capital assets, and other assets. Amounts receivable from the primary government or other component units should be reported separately.
 - (2) Total deferred outflows of resources.
 - (3) Total liabilities—distinguishing between current liabilities and long-term liabilities. Amounts payable to the primary government or other component units should be reported separately.
 - (4) Total deferred inflows of resources.
 - (5) Total net position—distinguishing among net investment in capital assets, restricted (separately reporting expendable and nonexpendable components), and unrestricted.
- b. Condensed statement of revenues, expenses, and changes in net position:
 - (1) Operating revenues (by major source)
 - (2) Operating expenses—identifying depreciation (including any amortization) separately
 - (3) Operating income (loss)
 - ~~(4) Nonoperating~~ Noncapital subsidies (detailed)
 - ~~(5) Operating income (loss) and noncapital subsidies~~
 - ~~(4)(6)~~ Other nonoperating revenues (expenses)—with separate reporting of major revenues and expenses
 - ~~(5) Capital contributions and additions to permanent and term endowments~~
 - ~~(6)(7)~~ Special and extraordinary Unusual or infrequent items (detailed)
 - ~~(7) Transfers~~
 - ~~(8) Change~~ Increase (decrease) in net position
 - ~~(9) Beginning net~~ Net position—beginning of period
 - ~~(10) Ending net~~ Net position—end of period.
- c. Condensed statement of cash flows:
 - (1) Net cash provided (used) by:
 - (a) Operating activities
 - (b) Noncapital financing activities
 - (c) Capital and related financing activities
 - (d) Investing activities
 - (2) Beginning cash and cash equivalent balances
 - (3) Ending cash and cash equivalent balances.

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[GASBS 61, ¶9, as amended by GASBS 63, ¶7 and ¶8, GASBS 84, ¶14, GASBS 85, ¶14, and GASBS XX, ¶30]

Equity Interests in Component Units

~~.116.~~.115 A government can own or acquire a majority of the equity interest in a legally separate organization (for example, through acquisition of voting stock of a corporation or acquisition of interest in a partnership). For purposes of applying this section, an equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable.⁷ If a government's holding of that equity interest meets the definition of an investment in paragraph .103 of Section I50, the equity interest should be reported as an investment and measured using the equity method in accordance with paragraphs .112–.116 of Section I50, except as discussed below. If a government's holding of that equity interest meets the definition of an investment, the legally separate organization should not be reported as a component unit of the government. If a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund holds a majority equity interest in a legally separate organization that meets the definition of an investment, that majority equity interest should be measured in accordance with the requirements in paragraph .108 of Section I50. If a government's holding of a majority equity interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and, therefore, the government should report the legally separate organization as a component unit. The majority equity interest should be reported as an asset of the government or fund that holds the equity interest, measured using the equity method in accordance with paragraphs .112–.116 of Section I50. However, if the component unit is blended, the asset and net position associated with the equity interest held by the government or fund should be eliminated in the blending process. In financial statements prepared using the ~~current short-term~~ financial resources measurement focus and accrual basis of accounting, the asset representing the government's equity interest should be limited to amounts appropriately reported under the ~~current short-term~~ financial resources measurement focus and accrual basis of accounting. [GASBS 14, ¶55, as amended by GASBS 61, ¶10, GASBS 72, ¶64, and GASBS 90, ¶5–¶8; GASBS 14, ¶73, as amended by GASBS 61, ¶10; GASBS 31, ¶5, as amended by GASBS 62, ¶202–¶210; GASBS 72, ¶64; GASBS 90, ¶3 and ¶5–¶7; GASBS 90, ¶ 8, as amended by GASBS XX, ¶12]

⁷~~The~~⁵~~The~~ definition of equity interest is not intended to include a government's residual interest in assets that may (on dissolution) revert to the government for lack of another equitable claimant. This type of interest is, in substance, the same as escheatage, that is, the reversion of property to a state resulting from the absence of any known, rightful inheritors to the property. [GASBS 90, fn1]

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Intra-Entity Transactions and Balances

~~.117.~~.116 Resource flows between the primary government and *blended* component units should be reclassified in accordance with the provisions of Section 1800, “Classification and Terminology,” paragraph .102, as internal activity in the financial statements of the reporting entity. Resource flows (except those that affect the statement of financial position only, such as loans, repayments, and deferred inflows of resources and deferred outflows of resources resulting from intra-entity transactions as discussed in Section S20, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,” paragraph .111) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. However, amounts payable and receivable between the primary government and its discretely presented component units or between those components should be reported on a separate line. [GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

~~.118.~~.117 Transfers of capital and financial assets and future revenues within the same financial reporting entity should be accounted for in accordance with paragraphs .112–.114 of Section S20. [GASBS 48, ¶15, as amended by GASBS 65, ¶13, GASBS 92, ¶6, and GASBS XX, ¶22 and ¶23; GASBS 65, ¶13, as amended by GASBS XX, ¶22; GASBS 92, ¶6]

~~.119.~~.118 Lease arrangements between the primary government and blended component units (or between blended component units) should not be reported as leases in the financial reporting entity’s financial statements. Instead, the lease arrangement should be reported in accordance with Section L20, “Leases,” paragraph .186. Lease arrangements between the primary government and discretely presented component units (or between those component units) are subject to existing lease guidance in Section L20, paragraph .187. Related receivables and payables should not be combined with other amounts due to/from component units or with lease receivables and payables with organizations outside of the reporting entity. To avoid double counting of assets and liabilities resulting from lease arrangements, eliminations may be made in accordance with Section 2200, paragraph .152. [GASBS 14, ¶58, as amended by GASBS 87, ¶88 and ¶89]

Reporting Periods

~~.120.~~.119 The primary government and its component units may have identical or different fiscal year-ends. A common fiscal year-end for the primary government and all component units is encouraged. The advantages and disadvantages of a common fiscal year-end should be considered when determining the practicality of making such a requirement. If it is determined that a common fiscal year-end is impractical, the reporting entity (which reports using the primary government’s fiscal year) should incorporate financial statements for the component unit’s fiscal year ending during the reporting entity’s fiscal year. If the component unit’s fiscal year ends within the first quarter of the reporting entity’s subsequent fiscal year, it is acceptable to incorporate that fiscal year of the component unit, rather than the fiscal year ending during the reporting entity’s fiscal period. Of course, this should be done only if timely and accurate presentation of the financial statements of the reporting entity is not adversely affected. [GASBS 14, ¶59]

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~~.121.120~~ If transactions between component units that have different fiscal years result in inconsistencies in amounts reported as due to or due from, and so forth, the nature and amount of those transactions should be disclosed in the notes to the financial statements. The fiscal year of the component units included in the reporting entity should be consistent from year to year, and changes in fiscal years should be disclosed. [GASBS 14, ¶60, as amended by GASBS 34, ¶61]

Note Disclosures

~~.122.121~~ The notes to the reporting entity's financial statements should include a brief description of the component units of the financial reporting entity and their relationships to the primary government. This disclosure should include a discussion of the rationale for including each component unit in the financial reporting entity and whether it is discretely presented, blended, or included in the fiduciary fund financial statements. Component units may be disclosed together if they have common characteristics as long as each component unit is separately identified. The notes should also include information about how the separate financial statements for the individual component units may be obtained. [GASBS 14, ¶61, as amended by GASBS 61, ¶11]

Focus of the Reporting Entity's Note Disclosures and Required Supplementary Information

~~.123.122~~ One of the key aspects of the reporting entity concept is that users should be able to distinguish between the primary government and its [discretely presented] component units. Thus, because the notes and required supplementary information (RSI) are integral parts of the financial statements, they should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units. [GASBS 14, ¶62]

~~.124.123~~ Notes essential to fair presentation in the reporting entity basic financial statements encompass:

- a. Governmental and business-type activities, major funds individually, and nonmajor funds in the aggregate of the primary government (including its blended component units).
- b. Major discretely presented component units considering the nature and significance of each component unit's relationship to the primary government.

Except for required disclosures about certain pensions (see paragraph .117 of Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit," and .115 of Section P22, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Benefit") and certain other postemployment benefits (OPEB) (see paragraph .120 of Section P50, "Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit," and

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paragraph .110 of Section P52, “Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit”), determining which discretely presented component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit-by-component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the individual component unit’s relationship with the primary government. For example, if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that debt-related disclosures should be made for that component unit. [GASBS 14, ¶63, as amended by GASBS 34, ¶6, GASBS 61, ¶11, GASBS 68, ¶18, GASBS 73, ¶24, and GASBS 75, ¶24 and ¶143; GASBS 34, ¶113]

Primary Government Separate Financial Statements

.124 A primary government may find it useful or necessary (for example, to satisfy specific legal requirements) to issue financial statements that do not include the financial data of its component units. Paragraph .101 states that the provisions of this section apply to financial reporting by primary governments; thus, financial statements that present only the data of the primary government should acknowledge that the financial statements do not include the data of the component units necessary for reporting in conformity with generally accepted accounting principles. [GASBS 14, ¶64]

Separately Issued Financial Statements of Component Units

.125 Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a component unit, may serve as a nucleus for a reporting entity when it issues separate financial statements. The requirements of this section apply to the separately issued financial statements of governmental component units. As noted in paragraph .106, this section should be applied in layers “from the bottom up.” That is, each component unit “layer” should apply the definition and display provisions to its own separately issued financial reports. Because this section is written from the perspective of the primary government, a governmental component unit should apply the provisions of this section as if it were a primary government. Separately issued financial statements of a component unit should acknowledge that it is a component unit of another government—for example, “Sample County School District, a component unit of Sample County.” In addition, the notes to the financial statements should identify the primary government in whose financial reporting entity it is included and describe its relationship with the primary government. [GASBS 14, ¶65]

Reporting a Component Unit If a Government Acquires a 100 Percent Equity Interest

.126 If a government acquires a 100 percent equity interest in a legally separate organization that is reported as a component unit in accordance with the requirements of

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paragraph .116 of this section for circumstances in which a government's holding of a majority equity interest in a legally separate organization does not meet the definition of an investment, the component unit should measure its assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with the provisions of paragraphs .126–.139, .141, and .142 of Section Co10, "Combinations and Disposals of Operations," at the date on which the government acquires the 100 percent equity interest. In applying those measurement provisions, the consideration provided should include the net resources exchanged to complete the acquisition of the 100 percent equity interest plus the balances of any equity interest asset and deferred outflow of resources recognized prior to the completion of the acquisition in accordance with paragraph .116 of this section. In addition, the net position acquired should be equal to the net position of the component unit after measuring assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with the provisions of paragraphs .126–.133 of Section Co10. The flows statements of the component unit should include only those transactions that occurred subsequent to the acquisition of the 100 percent equity interest. [GASBS 90, ¶9]

Other Stand-Alone Government Financial Statements

.127 Other stand-alone governments are legally separate governmental organizations that (a) do not have a separately elected governing body and (b) do not meet the definition of a component unit as discussed in Section 2100, paragraph .119. Other stand-alone governments include some special-purpose governments, joint ventures, jointly governed organizations, and pools. Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government (such as an other stand-alone government) serves as a nucleus for its reporting entity when it issues financial statements. The requirements of this section apply to the separately issued financial statements of all state and local governments. Even though this section is written from the perspective of a primary government, a stand-alone government should apply the provisions of this section as if it were a primary government. The financial reporting entity consists of the stand-alone government and all component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the stand-alone government are such that exclusion would cause the reporting entity's financial statements to be misleading. (See paragraphs .120–.143 of Section 2100,.) In accordance with paragraph .128, any stand-alone government with a voting majority of its governing board appointed by a primary government should disclose that accountability relationship in its financial statements. [GASBS 14, ¶66, as amended by GASBS 61, ¶4 GASBS 84, ¶7, as amended by GASBS 97, ¶5; GASBS 97, ¶4]

Reporting Relationships with Organizations Other Than Component Units

.128 Primary government officials may appoint some, or all, governing board members of organizations that are not included as component units in the primary government's reporting entity. These organizations are classified as (a) **related**

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organizations, (b) joint ventures and jointly governed organizations, and (c) component units of another government with characteristics of a joint venture or jointly governed organization. [GASBS 14, ¶67]

Related Organizations

.129 Organizations for which a primary government is accountable because that government appoints a voting majority of the board, but is not financially accountable, are related organizations. The primary government should disclose in the notes to the financial statements the nature of its accountability for related organizations. Groups of related organizations with similar relationships with the primary government may be summarized for purposes of the disclosure. In addition, the primary government should disclose any other information required by Section 2300, “Notes to Financial Statements,” paragraph .108f. The financial statements of a related governmental organization should disclose the primary government that is accountable for it and describe its relationship with that primary government. [GASBS 14, ¶68]

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GASB TECHNICAL BULLETINS

Tobacco Settlement Recognition and Financial Reporting Entity Issues

.601 This paragraph clarifies guidance on whether a Tobacco Settlement Authority (TSA) that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, this Technical Bulletin clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies. [GASBTB 2004-1, ¶2]

Question

Should a component unit TSA be included in the settling government's financial reporting entity through blending or discrete presentation? [GASBTB 2004-1, ¶9]

Response

The terms of legislation creating a TSA and the provisions in the agreement between the TSA and the settling government establish a relationship that generally would require the TSA component unit to be blended. Paragraph .113 of this section identifies two circumstances that would require a component unit to be blended. The first, in subparagraph a, exists when the component unit's governing body is substantively the same as the governing body of the primary government. The second circumstance, in subparagraph b, exists when the component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. Generally, the composition of the governing bodies of TSAs would not comply with the *substantively the same* criterion in paragraph .113a. Therefore, the *exclusive benefit* criterion in paragraph .113b determines whether a TSA should be blended or discretely presented. [GASBTB 2004-1, ¶10]

The financial relationships between a settling government and its component unit TSA should be examined to determine whether the *exclusive benefit* criterion is met and blending is required. However, the statement in paragraph .113b—that “usually the services provided by a blended component unit are financing services provided solely to the primary government”—supports blending as the method of including most TSA component units. [GASBTB 2004-1, ¶11]

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GASB IMPLEMENTATION GUIDES

.701 Introduction

.701-1 Q—Is this section applicable to all governments, including those that do not meet the primary government criteria in paragraph .112 of Section 2100?

A—Yes. Paragraph .101 of this section states:

The requirements of this section apply at all levels to all state and local governments. This section applies to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. This includes governmental enterprises, public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities....

Paragraph .103 of this section reiterates this position, stating:

The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. Although this section is written from the perspective of the primary government, its requirements apply to the separately issued financial statements of governmental component units, joint ventures, jointly governed organizations, and other stand-alone governments....

An organization that is a component unit of a financial reporting entity may have component units of its own. For example, a school district may be a component unit of a county because the county appoints the governing board of the district, and the district imposes a financial burden on the county. The school district also could be financially accountable for an education foundation and thus apply the provisions of this section to the foundation when the foundation is included in the school district's separately issued basic financial statements.

[GASBIG 2015-1, Q4.2.1]

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- .701-2 Q—Should the reporting entity criteria be applied in determining whether nongovernmental organizations are component units?

A—Yes. Footnote 2 of this section provides that “a component unit may be a governmental organization (except those that meet the definition of a primary government in paragraph .112 of Section 2100), a nonprofit corporation, or a for-profit corporation.” The financial accountability criteria in paragraph .121 of Section 2100 should be applied to all potential component units, including nongovernmental organizations. Requirements for governmental *and nongovernmental* organizations that *do not* meet the financial accountability criteria are provided in paragraphs .140–.143 of Section 2100. Paragraph .142 of Section 2100 provides criteria that, if met, *require* certain organizations to be included as part of the financial reporting entity because of the nature and significance of the organizations’ relationships with the primary government. Paragraph .143 of Section 2100 states that other organizations should be *considered* for inclusion as component units if they are closely related to, or financially integrated with, the primary government.

[GASBIG 2015-1, Q4.2.2]

- .701-3 Q—Does this section apply to nongovernmental component units when they are included in a governmental reporting entity?

A—Yes. Paragraph .101 of this section states that “this section should be applied to all governmental *and nongovernmental* component units when they are included in a governmental financial reporting entity” (emphasis added). Similar provisions are presented in paragraph .101 of Section 2100.

For example, for the purposes of preparing the financial statements for the governmental reporting entity, a nongovernment component unit of the governmental reporting entity would need to apply Section 2100 to its potential component units to determine whether or not they meet the criteria to be included as component units.

(See Question .713-4 in this section about separately issued financial statements of a nongovernmental component unit.)

[GASBIG 2015-1, Q4.33.2]

.702 Definitions of the Financial Reporting Entity and Component Units

- .702-1 Q—Should a pension plan be evaluated as a component unit of a primary government?

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A—Yes. A pension plan should be evaluated using the financial accountability criteria of Section 2100. In addition, paragraph .143 of Section 2100 notes that other organizations should be evaluated as potential component units if they are closely related to the primary government to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion.

[GASBIG 2015-1, Q4.62.2 and GASBIG 2016-1, Q4.13, as amended by GASBS 84, ¶6 and ¶7]

.702-2 Q—Should a pension or OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, “Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit,” paragraph .101 of Section Pe6, “Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Contribution,” paragraph .101 of Section Po50, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Benefit,” or paragraph .101 of Section Po51, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Contribution,” as applicable, be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes?

A—Yes. For purposes of applying the criteria in paragraph .114 of Section 2100, paragraph .130 of Section 1300 states that such plans should be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes.

[GASBIG 2019-2, Q4.1]

.702-3 Q—Is the answer in Question .702-2 the same regardless of whether the pension or OPEB plan is a defined benefit plan or a defined contribution plan?

A—Yes. Regardless of whether the pension or OPEB plan is a defined benefit plan or a defined contribution plan, if the pension or OPEB plan is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, the plan should be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes.

[GASBIG 2019-2, Q4.2]

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.702-4 Q—Should pension or OPEB plans that are administered through equivalent arrangements that meet the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, be considered legally separate from the employers, nonemployer contributing entities, and the plan administrator for financial reporting purposes?

A—A pension or OPEB plan that is administered through an equivalent arrangement that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, may or may not be legally separate. Determining whether those plans are legally separate from the employers, nonemployer contributing entities, and the plan administrator is a legal issue.

[GASBIG 2019-2, Q4.3, as amended by GASBS 97, ¶5]

.702-5 Q—A local government provides defined benefit pensions to its employees through a pension plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5. The plan is governed by a five-member board. The local government appointed the initial plan member representatives, whose terms expired sequentially over the first five years, to the pension plan board. Successor pension plan board members were elected by the retired and active plan members. The pension plan board is the trustee for the assets in the plan and approves all decisions related to the investment of the assets in the plan. The local government cannot unilaterally abolish the plan. The local government has determined that the fiscal dependency criteria in paragraph .115 of Section 2100 are not met. Therefore, the characteristics of financial accountability in paragraph .120b of Section 2100 are not present. Is the local government financially accountable for the plan under the requirements in paragraph .120a of Section 2100?

A—No. The plan does not meet the criteria for financial accountability in paragraph .120a of Section 2100 because it does not appoint a voting majority of the organization's governing body, as discussed in paragraphs .121–.123 of Section 2100. Specifically, the local government appointed the initial pension plan board with no continuing appointment authority, and the local government does not have the unilateral ability to abolish the pension plan.

[GASBIG 2019-2, Q4.4]

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.702-6 Q—A pension or OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Pe5, paragraph .101 of Section Pe6, paragraph .101 of Section Po50, or paragraph .101 of Section Po51, as applicable, does not have a governing board. Instead, another government (for example, a sponsoring government) performs the duties that a governing board typically would perform (for example, the government determines or amends the structure of the plan [vesting requirements and required contributions]). If that other government (for example, a sponsoring government) is legally obligated to make contributions to the pension or OPEB plan, should the plan be included as a fiduciary component unit of that other government?

A—Yes. In accordance with paragraph .120a of Section 2100, a government is financially accountable for a legally separate organization if it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the government. For purposes of that paragraph, a government (for example, a sponsoring government) that performs the duties of a governing board in the absence of one should be considered equivalent to a governing board for which the government appoints a voting majority. Furthermore, in accordance with paragraph .130 of Section 1300, a government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to the pension or OPEB plan. As a result, the plan should be included as a fiduciary component unit of the other government (for example, a sponsoring government).

[GASBIG 2019-2, Q4.5, as amended by GASBS 97, ¶4 and ¶5]

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.702-7 Q—Pursuant to enabling state legislation, a city established a defined benefit pension plan through which the city provides pensions to its employees. The pension plan is administered through a trust that meets the criteria in paragraph .101 of Section Pe5. Five of the seven members of the pension plan board are appointed by the city council, and two members are elected by the plan members. A provision in the enabling legislation imposes an obligation on the city to make contributions to the plan. The city has determined that it is not able to impose its will on the plan. Because the trust meets the criteria in paragraph .101 of Section Pe5, the city cannot access the resources of the plan. Furthermore, the city is not obligated in any manner for the debt of the plan. Should the plan be included as a component unit of the city?

A—Yes. Paragraph .130 of Section 1300 provides that a legal obligation or the assumption of an obligation to make contributions to a defined benefit pension plan constitutes a financial burden. The statutory obligation for the city to contribute to the plan meets the criterion in paragraph .127b of Section 2100. Because the government also appoints a majority of the plan's governing board, the government is financially accountable for the plan.

[GASBIG 2019-2, Q4.7, as amended by GABS 97, ¶5]

.703 Reporting Component Units

.703-1 Q—How are component units reported?

A—Component units are either blended, discretely presented, or included in the fiduciary funds financial statements. The relationship of some component units to the primary government is so close that the component units are reported as though they are part of the primary government, or blended. (See paragraph .706 for further discussion of blending.) Most component units should be discretely presented, which allows readers to distinguish between the financial data of the component unit and that of the primary government. (See paragraphs .704 and .705 for more discussion of discrete presentation.) Fiduciary component units should be included only in the fund financial statements with the primary government's fiduciary funds.

[GASBIG 2015-1, Q4.27.1, as amended by GASBS 84, ¶5]

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.703-2 Q—Can component units be reported through note disclosure only?

A—No. If an organization meets the criteria to be included as a component unit, it should be presented discretely, blended, or included in the fiduciary funds financial statements. (See Question .703-1 in this section.) If the primary government appoints a voting majority of the board of an organization that does not meet the financial accountability criteria, the primary government's accountability for that related organization would be reported in the notes to the financial statements in accordance with the applicable provisions of this section. (See Question .716-2 in this section for further discussion of related organizations.)

[GASBIG 2015-1, Q4.27.2]

.703-3 Q—A public employee retirement system (PERS) that is a fiduciary component unit of a local government has two fiduciary component units of its own— one is accounted for in a pension trust fund and one is accounted for in an other employee benefit trust fund. How should the PERS and its component units be included in the fiduciary fund financial statements of the local government?

A—In accordance with paragraph .217 of Section 2200, the financial statements of the PERS, its pension trust fund component unit, and its other employee benefit trust fund component unit should be combined and reported within the pension (and other employee benefit) trust fund column in the local government's fiduciary fund basic financial statements.

[GASBIG 2019-2, Q4.51]

.703-4 Q—A public university that reports as a stand-alone business-type activity uses a single column for presenting its financial statements. The university has fiduciary component units that meet the criteria in paragraphs .129 and .131 of Section 1300 and is engaged in other fiduciary activities. Is the university required to include fiduciary fund financial statements as part of its basic financial statements?

A—Yes. The university is required to include fiduciary fund financial statements as part of its basic financial statements. As indicated in paragraph .102 of Section 2200, government-wide financial statements that include a single column presentation for a business-type activity should not include fiduciary activities. The university can, however, choose to apply the exception in paragraph .175 of Section 2200 to the extent that fiduciary assets are normally expected to be held for three months or less.

[GASBIG 2019-2, Q4.52]

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.704 Discrete Presentation of Component Units

.704-1 Q—A public university uses the business-type activities (BTA) model and has a closely related fund-raising foundation that meets the component unit criteria in paragraphs .141–.143 of Section 2100. The foundation’s financial statements will be included through discrete presentation. Is the university required to include the foundation’s cash flow information in its statement of cash flows?

A—No. Paragraph .217 of Section 2200 states that the discrete presentation requirements are met by displaying component unit financial data in the statements of net position and activities. Even though that requirement is stated in terms that apply to reporting governmental activities, the standard should be comparably applied, in substance, to the BTA model. That is, component unit data should be included by discrete presentation in the statements of financial position (statement of net position/balance sheet) and changes in financial position (statement of revenues, expenses, and changes in net position). Paragraph .217 does not include a requirement to display component unit cash flow information.

[GASBIG 2015-1, Q2.4.3]

.704-2 Q—What criteria should be used to determine whether a component unit is discretely presented or blended?

A—Component units that meet the criteria in paragraph .113 of this section should be blended. However, excluding fiduciary component units, most component units, including those that meet the criteria of paragraph .142 of Section 2100, should be discretely presented. (See Question .706-1 in this section for a discussion of the blending criteria.)

[GASBIG 2015-1, Q4.28.1, as amended by GASBS 84, ¶5]

.704-3 Q—What does it mean to discretely present a component unit?

A—Discrete presentation refers to the use of columns and rows in the government-wide statements separate from the financial data of the primary government to provide an overview of component unit financial data. The discrete column(s) should be located to the right of the financial data of the primary government, with descriptive headings to allow readers to distinguish between the financial data of the primary government (including its blended component units) and those of the discretely presented component units. In addition to the columns in the statement of activities, discrete row(s) should be located below the function/program details of the primary government to provide for that distinction. (See also Question .704-12 in this section about

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component units that use a different GAAP reporting model and Question .704-7 in this section about discrete presentation in the BTA model.)

[GASBIG 2015-1, Q4.28.2]

.704-4 Q—Paragraph .107 of this section allows governments to use one or more columns to display their component unit financial data. What distinctions can be used to segregate component units in more than one column?

A—A government that presents its component units in more than one column may segregate the component units using any method that it chooses. The provisions in paragraphs .107, .108, and .110 of this section regarding the mechanics of discrete presentation, are intended to provide ~~flexible~~ guidance regarding the presentation of major components units. Paragraph .108 ~~permits~~requires governments to present major component units in separate columns ~~(and rows)~~ in the government-wide statements if it does not reduce the readability of the statements. In addition, component units could be presented based on functional groupings, whether component units are governmental or business type, or whether the primary government is financially accountable based on fiscal dependency and a financial benefit or burden relationship. However, segregating component units into functional groupings in the government-wide statements does not relieve the government of the major component unit reporting responsibility—~~either in combining statements or in condensed financial statements in the notes.~~

[GASBIG 2015-1, Q4.28.4, as amended by GASBS XX, ¶133]

.704-5 Q—If there is only one discretely presented component unit, is the primary government required to present the fund financial statements of the component unit in the combining statements?

A—Paragraph .110 of this section states that presentation of the fund financial statements of the individual component units is not required unless such information is not available in the separately issued financial reports of the component units. If not otherwise available, these fund financial statements would be presented as supplementary information.

[GASBIG 2015-1, Q4.28.7]

.704-6 Q—What are the display/disclosure options when there is only one discretely presented component unit?

A—Paragraph .105 of this section requires component unit information to be displayed in the reporting entity's government-wide statements. ~~Therefore, when there is only one component unit, the options discussed in paragraph~~ Paragraph .108 of this section ~~to present~~ requires major component unit information to be presented in a separate column in the

reporting entity's statements of net position and activities if it does not reduce the readability of the statements. Presentation 4 in combining statements or in the notes are is not inapplicable because the major component unit reporting requirements are met by discrete presentation in the government-wide statements.

[GASBIG 2015-1, Q4.28.989, as amended by GASB XX, ¶ 33]

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.704-7 Q—An authority that is engaged only in business-type activities reports its three major enterprise funds in accordance with the guidance in paragraph .113 of Section Sp20, “Special-Purpose Governments.” The authority also has a business-type component unit that meets the criteria for discrete presentation. Paragraphs .105 and .107 of this section state that the requirements for discrete presentation should be met by displaying the component unit financial data in the government-wide statements of net position and activities. How should the authority’s component unit be reported?

A—The component unit financial data can be reported in one of two ways. Because the authority follows the guidance in paragraph .113 of Section Sp20, there are no government-wide statements to use for reporting component unit information. The authority could insert the component unit column to the right of the required total column on the enterprise fund financial statements. Only the statement of net position and change statement for the component unit would be presented. Cash flow information for the component unit is not required. (See Questions .768-2 and .768-3 in Section 2200.) Alternatively, the authority could present the enterprise fund total columns for the statement of net position and the statement of revenues, expenses, and changes in net position on separate pages and include the component unit data to the right of the total columns on those separate pages—in effect, a “government-wide” style presentation.

[GASBIG 2015-1, Q4.28.10]

.704-8 Q—If a discretely presented component unit is not a fiduciary component unit, but has fiduciary funds, are those fiduciary funds reported in the reporting entity’s financial statements?

A—No. Fiduciary funds of a discretely presented component unit are not included in the reporting entity’s financial statements. As explained in paragraph .110 of this section, the “aggregated total” financial information of a discretely presented component unit is taken from its statement of net position and statement of activities. (See Question .704-10 in this section.) Paragraph .112 of Section 2200 defines the scope of those statements to exclude fiduciary funds. (However, fiduciary fund financial statements of a component unit that does not issue separate financial statements should

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be included in the reporting entity's comprehensive annual financial report, as required by paragraph .110 of this section.)

[GASBIG 2015-1, Q4.28.11, as amended by GASBS 84, ¶5]

.704-9 Q—Certain activities of a component unit are financed by payments from the primary government's general fund. If the component unit does not meet the criteria for blending, how should the transactions and balances related to the component unit be reported in the reporting entity's financial statements?

A—Paragraph .116 of this section states that the payments should be reported in the reporting entity's statement of activities as if they were *external transactions*—as expenses of the primary government and revenues of the component unit. Amounts payable and receivable between the primary government and the component unit should be reported separately from other payables and receivables. In addition, paragraph .109 of this section requires disclosure of the nature and amounts of significant transactions between the primary government and the component unit.

[GASBIG 2015-1, Q4.28.13]

.704-10 Q—If a discretely presented component unit has component units of its own, but does not present a reporting entity *total column*, what information should be “rolled up” to the primary government's reporting entity financial statements?

A—Paragraph .110 of this section states that the “aggregated total” component unit information should be taken from the entity totals derived from the component unit's statements of net position and activities. Paragraph .110 does not amend the requirement in paragraph .106 of this section. That paragraph states that the component unit financial data that are incorporated into a reporting entity's financial statements should include the data from all of its component units. Therefore, the data that should be taken from the discretely presented component unit's financial statements are the amounts that *would be* in its entity total column if one had been presented.

[GASBIG 2015-1, Q4.28.14]

.704-11 Q—A state university is a discretely presented component unit of the state. In its separate financial statements, the university presents its fund-raising foundation as a discretely presented component unit, based on the criteria in paragraphs .142–.144 of Section 2100. When the aggregated totals of the university's reporting entity are “rolled up” for inclusion as a compo-

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nent unit of the state, should significant transactions and balances between the university and the foundation be eliminated from the aggregated totals?

A—Yes. Paragraph .112 of Section 2200 states that a total column for the reporting entity may be presented but is not required. Paragraph 43 in the Basis for Conclusions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, indicates that eliminations should be made when a component unit's reporting entity totals are "rolled up" for inclusion in a primary government's financial reporting entity. Therefore, significant transactions and receivable/payable balances between the university and the foundation should be eliminated from the aggregated totals that would be carried forward for discrete presentation in the state's financial statements. Paragraph .109 of this section and paragraph .219 of Section 2200 require disclosure of the nature and amount of significant transactions between a primary government and its component units. (See Question .725-17 in Section 2200 about transactions between a university and its auxiliary enterprises.)

[GASBIG 2015-1, Q4.28.15]

.704-12 Q—How would a reporting entity display the financial statements of a component unit that uses a GAAP reporting model other than the governmental model?

A—Component units that use other GAAP reporting models would be incorporated into the reporting entity's financial statements generally in the same manner as governmental component units. As described in paragraph .106 of this section, all component units are required to apply the definition and display provisions of this section before they are combined with the primary government. In the reporting entity's statement of net position, a discretely presented component unit's financial data may be presented in a separate discrete column or combined with the financial data of other discretely presented component units as described in paragraph .107 of this section. Similarly, in the reporting entity's statement of activities, a nongovernmental component unit's financial data may be presented on a separate line or combined with the financial data of other component units. The financial data of a nongovernmental component unit would be arrayed based on the same display considerations as those discussed for component units engaged only in business-type activities in Question .723-5 in Section 1800. If the reporting entity's financial statements do not include a statement of activities, the nongovernmental component unit's financial statement data should be reconfigured into a display that is compatible with the reporting entity's change statement format and be presented in a discrete column to the right of the financial statement data of the primary government. However, if it is impractical to reformat the nongovernmental component unit's

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change statement data, they need not be reported on the same page as that of the primary government, but may be reported on a separate following page. (See Questions .704-13 and .704-14 in this section about including financial data of nongovernmental component units.)

[GASBIG 2015-1, Q4.33.1]

.704-13 Q—Many organizations that paragraphs ~~.141–.143~~.142–.144 of Section 2100 require be included in a government’s reporting entity as discretely presented component units are *nongovernmental* and follow Financial Accounting Standards Board (FASB) standards in their separately issued financial statements. To what extent should the financial statements of a nongovernmental component unit be converted to comply with GASB standards?

A—There are no requirements to change the recognition, measurement, or disclosure standards applied in a nongovernmental component unit’s separate financial statements. However, as discussed in Question .701-3 in this section, the provisions of this section should be applied to the financial statements of a nongovernmental component unit when those statements are incorporated into a governmental financial reporting entity. That is, a nongovernmental component unit should include component units of its own based on the criteria in Section 2100. In addition, the financial statements of a nongovernmental component unit may need to be reformatted to comply with the classification and display requirements in Sections 1800 and 2200. (See Question .704-12 in this section about presenting the financial data of nongovernmental component units on separate pages, and Question .704-14 in this section about reformatting. Also see the illustrations in nonauthoritative paragraph .908 of this section.)

[GASBIG 2015-1, Q4.33.3, as amended by GASBS XX, ¶9, ¶10, and ¶29–¶32]

.704-14 Q—A state university is affiliated with a nongovernmental fund-raising organization that meets the criteria in paragraphs .141–.143 of Section 2100 for discrete presentation in the university’s financial reporting entity. In its separate financial statements, the university (legally separate from the state) reports as a business-type activity, pursuant to the provisions of paragraph .106 of Section Co5, “Colleges and Universities.” If the university chooses to present the foundation’s financial statements in a separate column adjacent to its own total columns, what display and classification modifications to the foundation’s financial statements may be necessary?

A—If the foundation’s statement of net assets is not presented in a classified format, its assets and liabilities should be reclassified into their current and noncurrent components, based generally on the guidance in paragraphs .108–.123 of Section 1800. Also, the foundation’s net assets should1033

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be redistributed among the three net position components required in paragraph .118 of Section 2200—net investment in capital assets, restricted (distinguishing between expendable and nonexpendable and between major categories of restrictions), and unrestricted. The data in the foundation’s statement of activities may need to be realigned to distinguish between operating and nonoperating revenues and expenses and generally relocated to their appropriate positions in the GASB’s required format. Also, because the university can present its operating expenses by either natural classification or functional categories, the foundation’s expenses may need to be reconfigured to conform to the approach used by the university. In addition, the foundation’s revenues may need to be reduced by related discounts and allowances, if reported separately as expenses, to be consistent with the university’s presentation. (See also Questions .704-12 and .704-13 in this section, and the illustrations in nonauthoritative paragraph .908 of this section.)

[GASBIG 2015-1, Q4.33.4]

.704-15 Q—Can budgetary data for a discretely presented component unit be presented in the reporting entity’s budget-to-actual comparison ~~as RSI~~ or in the basic financial statements in RSI?

A—No. Paragraph .206~~209~~ of Section 2200 clearly limits the comparison to the primary government’s general fund and major special ~~revenue~~resources funds with legally adopted annual budgets. Including data for discretely presented component units in the budgetary comparison schedule would be in conflict with the limitations of that requirement. Budgetary comparisons for discretely presented component units, however, can be presented as supplementary information.

[GASBIG 2015-1, Q4.36.1, as amended by GASB XX, ¶128 and ¶134]

.704-16 Q—In the statement of activities, can the reporting government combine as a single function (higher education, for example) the data of the primary government and a discretely presented component unit?

A—No. Paragraph .105 of this section requires that financial statements of the reporting entity provide an overview of the entity, yet allow users to distinguish between the primary government and its component units. Even though this combined “single-function” approach would report the net (expense) revenue of the component unit in a separate column, users would not be able to distinguish between the expenses and program revenues of the primary government and its component units. Paragraph .113 of Section 2200 expands the meaning of discrete presentation to cover separate

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rows as well as columns. It states, “Separate rows and columns should be used to distinguish between the total primary government and its discretely presented component units.”

[GASBIG 2015-1, Q7.7.3]

.705 Major Component Unit Information

.705-1 Q—Paragraph 456 in the Basis for Conclusions of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, explains that users interested in cash flow information about a specific component unit should refer to the component unit’s separately issued financial statements. If a component unit does not issue separate financial statements, is cash flow information for the component unit required to be presented in the reporting entity’s comprehensive annual financial report (CAFR)?

A—Yes. If a component unit does not issue separate financial statements, fund financial statements for that component unit should be included in the reporting entity’s CAFR. Therefore, if the component unit has proprietary funds, cash flow statements for those funds would be included in the major component unit information in the reporting entity’s CAFR as supplementary information.

[GASBIG 2015-1, Q2.4.1]

.705-2 Q—Paragraph .107 of this section allows governments to use one or more columns to display their component unit financial data. What distinctions can be used to segregate component units in more than one column?

A—A government that presents its component units in more than one column may segregate the component units using any method that it chooses. The provisions in paragraphs .107, .108, and ~~.111~~.110 of this section regarding the mechanics of discrete presentation, are intended to provide ~~flexible~~ guidance regarding the presentation of major components units. Paragraph .108 ~~permits~~requires governments to present major component units in separate columns ~~(and rows)~~ in the government-wide statements if it does not reduce the readability of the statements. In addition, component units could be presented based on functional groupings, whether component units are governmental or business type, or whether the primary government is financially accountable based on fiscal dependency and a financial benefit or burden relationship. However, segregating component units into functional groupings in the government-wide statements

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does not relieve the government of the major component unit reporting responsibility—~~either in combining statements or in condensed financial statements in the notes.~~

[GASBIG 2015-1, Q4.28.4, GASBS XX, ¶33]

~~.705-3 Q—If a reporting entity that has few component units presents each one in a separate discrete column in the government-wide statements, is it necessary to include condensed financial statements in the notes, or combining statements in the reporting entity’s basic financial statements?~~

~~A—No. The requirement in paragraph .108 of this section is that information about each major component unit should be presented in some manner in the basic statements of the reporting entity. There are three ways to satisfy the requirements of paragraph .108. Financial information for each major component unit can be presented in:~~

~~A separate column in the reporting entity’s statement of net position and a separate column and row in the statement of activities~~

~~Combining statements in the reporting entity’s basic statements, after the fund financial statements~~

~~Condensed financial statements in the notes to the reporting entity’s financial statements.~~

~~[GASBIG 2015-1, Q4.28.16]~~

~~Superseded by GASBS XX, 33~~

.705-3

~~.705-4~~ Q—What criteria should be used to determine which component units are “major”?

A—Paragraph .108 of this section states that “‘major’ should be based on the nature and significance of its relationship to the primary government.” This determination generally would be based on any of the following factors: (a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, (b) there are significant transactions with the primary government, or (c) there is a significant financial benefit or burden relationship with the primary government. However, what is considered significant in one relationship might be insignificant in another. For example, a component unit that has significant cash balances or other resources might not be considered “major” if it is included because of imposition of will, while another component unit with significant cash balances or other resources might be considered “major” if it is included because the primary government has the ability to access its resources.

[GASBIG 2015-1, Q4.28.17]

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~~.705-54~~ Q—A government uses the combining statement method to present its major component unit information in accordance with paragraph .108 of this section. because it is not feasible to present each major component unit in a separate column in the reporting entity's statements of net position and activities. In the combining statements, should the government “recast” the financial statement data of business-type component units into a statement of activities format, or can it present a combining statement of revenues, expenses, and changes in net position?

A—The answer depends on the level of detail presented in the reporting entity's government-wide statement. (See also Question .714-5 in Section 2200 about reporting business-type component units in the statement of activities.)

If the business-type component units are combined with component units engaged in governmental activities, the combining statement should follow the statement of activities format. (However, the government could display a single business-type activity line on the combining statement of activities, with a supporting combining statement of revenues, expenses, and changes in net position.)

If business-type component units are reported separately in the reporting entity's statement of activities, the combining statement may be presented in the statement of revenues, expenses, and changes in net position format with the combined totals recast into the reporting entity's statement of activities.

[GASBIG 2015-1, Q4.28.20, as amended by GASBS XX, ¶133]

~~.705-6~~ Q—Paragraph .109 of this section establishes the minimum level of detail required for condensed financial information of major component units presented in the notes. Does that guidance also apply to major component units presented in combining statements?

A—No. Paragraph .111 of this section states that the major component unit information should be the entity totals derived from the component units' statements of net position and activities. There is no additional provision allowing governments to *condense* that information to the levels indicated in some parts of paragraph .109. However, some governments may need to combine or retitle certain accounts for consistency and comparability across component units in the combining statements.

Superseded by GASB XX, ¶ 33 [GASBIG 2015-1, Q4.28.21]

~~.705-7~~ Q—If some, but not all, major component unit information is displayed separately in the government-wide statements, what is required to be presented in the combining statements or disclosed in the notes? For example, the

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reporting entity's statement of activities uses a separate line for each major component unit, but reports the net expense/revenue totals and changes in net position in a single "component units" column.

~~A Paragraph .109 of this section requires presentation of a condensed statement of activities in the notes. Therefore, presentation of only a portion of the statement of activities would not satisfy that disclosure requirement, even though some of the required data from within the statement is displayed on the face of the basic financial statements.~~

Superseded by GASB XX, ¶ 33 [GASBIG 2015-1, Q4.28.22]

~~.705-8 Q What is required if the condensed financial statements of major component units are presented in the notes to the reporting entity's financial statements?~~

~~A If the condensed financial statements approach is used, paragraph .109 provides that the following information should be presented for each major component unit. Information for all nonmajor component units should be presented in the aggregate.~~

~~Condensed statement of net position:~~

~~Total assets—distinguishing between current assets, capital assets, and other assets.
Amounts receivable from other funds or component units should be reported separately.~~

~~Total deferred outflows of resources.~~

~~Total liabilities—distinguishing between current liabilities and long-term liabilities.
Amounts payable to other funds or component units should be reported separately.~~

~~Total deferred inflows of resources.~~

~~Total net position—distinguishing among net investment in capital assets, restricted (separately reporting expendable and nonexpendable components), and unrestricted.~~

~~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.~~

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~~Because component units that are engaged only in business-type activities are not required to prepare a statement of activities, the disclosures for the condensed statement of activities should be taken from equivalent information provided in the component unit's statement of revenues, expenses, and changes in net position.~~

~~[GASBIC 2015-1, Q4.28.23]~~ Superseded by GASB XX, ¶ 33

~~.705-9 Q—Paragraphs .213–.216 of Section 2200 and paragraphs .107–.109 of this section provide guidance for including component units in a primary government's financial reporting entity. Paragraph .216 of Section 2200 and paragraph .109 of this section discuss disclosing condensed financial information of the component units in the notes to the financial statements. If the note disclosure approach is used, is a government relieved of any display requirements in the basic statements?~~

~~A—No. The guidance in paragraphs .213–.216 of Section 2200 and paragraphs .107–.109 of this section refers to “major” component units as described in paragraph .108 of this section. Discretely presented component units may be aggregated into a single column presentation on the face of the financial statements; however, details of major component units included in this aggregation should be presented either in combining statements or in notes to the financial statements. Disclosure (and the combining statement approach) supplements, but does not replace, the display of component unit information on the face of the financial statements. (See Question .705-7 in this section relating to the condensed financial statements required in combining statements or notes to the financial statements.)~~

~~Superseded by GASB XX, ¶ 33 [GASBIC 2015-1, Q4.28.25]~~

~~.705-105 Q—Are major component units equivalent to major funds with regard to assessing materiality?~~

~~A—No. There are similarities, but major funds and major component units are not equivalent. Financial statements for major funds and financial information for major component units are required to be separately reported in the basic financial statements. Even though the separate reporting requirements of major component units and major funds appear to be similar, the criteria used to determine major funds differ from the considerations involved in selecting major component units, and there are other important differences—for example:~~

- ~~• Paragraph .158159 of Section 2200 requires governments to present each major *fund* in a separate column in the appropriate fund financial statements.~~

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Governments ~~can~~ meet the major *component unit* reporting requirements of this section ~~in three ways: by using multiple columns and rows in the government-wide financial statements, or by including combining statements in the basic statements, or by presenting condensed financial information in the notes.~~

- Paragraph .105 of this section states that the component unit *overview* reporting requirements of that paragraph are met by discrete presentation in the government-wide statements. If major component units are not displayed separately in the government-wide statements, major component unit reporting (in combining statements ~~or notes~~) provides the *supporting details* of that *overview* presentation, as indicated in paragraphs .103 and .108 of this section. In contrast, major *funds* are regarded as separate reporting units rather than supporting details of a fund category or the government-wide statements.
- Disclosures for a major component unit are required if deemed essential for fair presentation of the *reporting entity's* financial statements (paragraph .123 of this section). Disclosures for major funds are accorded a higher level of significance in paragraph .102 of Section 2300, which states that “the notes should focus on the primary government—specifically, its governmental activities, business-type activities, *major funds*, and nonmajor funds in the aggregate” (emphasis added).
- Separate audited financial statements are generally issued for major (and nonmajor) component units. The information presented in the reporting entity's financial statements may be taken from those separate financial statements without substantive modification.

Those differences should be considered in making materiality determinations for major component units when preparing the reporting entity's financial statements.

[GASBIG 2015-1, Q7.4.4, as amended by GASB XX, ¶ 33]

~~.705-116~~ Q—In preparing financial statements, how should the financial information of major component units be assessed for determining materiality?

A—Major individual discretely presented component units should be assessed considering the characteristics of major component unit information discussed in the answer to Question .705-10 in this section, and based on an evaluation about the nature and significance of the component unit's relationship to the primary government.

[GASBIG 2015-1, Q7.4.5]

~~.705-127~~ Q—If there are no major component units, all that is required by this section is discrete presentation of the aggregated (or in some instances, a *single*)

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nonmajor component units in the government-wide statements. How should materiality be assessed for component unit information when there are no major component units?

A—Determining how that information should be assessed should be based on professional judgment, *considering relevant qualitative factors* and the relationship of the nonmajor component unit information to other appropriate information in the financial statements. For example, quantitative materiality of the component unit information might be determined based on its significance compared to governmental activities and business-type activities. Alternatively, it could be compared to major funds.

[GASBIG 2015-1, Q7.4.6]

~~.705-138~~ Q—If a government determines that segment disclosures for a major discretely presented component unit should be included in the notes, is a condensed statement of cash flows required?

A—No. A condensed statement of cash flows would not be required in the segment disclosures for a major component unit. Cash flow reporting is not required for component units anywhere else—not in the government-wide statements and not in the major component unit information. Paragraph 456 in the Basis for Conclusions of Statement 34 states that users interested in cash flow information about a specific component unit should refer to the component unit's separately issued financial statements. (See Question .705-1 in this section about component units that do not issue separate financial reports.)

[GASBIG 2015-1, Q7.86.6]

.706 Blending Component Units

.706-1 Q—What are the criteria for a component unit to be blended with the primary government?

A—Paragraph .113 of this section states, in part:

A component unit should be included in the reporting entity financial statements using the blending method in any of these circumstances:

- a. The component unit's governing body is substantively the same as the governing body of the primary government *and* (1) there is a financial benefit or burden relationship between the primary government and the component unit,...

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or (2) management of the primary government has operational responsibility for the component unit (footnote omitted)....

- b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it....
- c. The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government....
- d. The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs .120–~~.136~~.123 and ~~.125–.137~~ of Section 2100 (footnote omitted).

However, organizations that meet the criteria in paragraph ~~.141~~.142 of Section 2100 should be discretely presented, even if they also meet the criterion in paragraph .113b or paragraph .113c of this section.

[GASBIG 2015-1, Q4.30.1, as amended by GASBS 80, ¶5]

- .706-2 Q—Can professional judgment be used as a basis for blending a component unit that does not meet the criteria for blending?

A—No. Only those component units that meet the criteria in paragraph .113 of this section should be reported using the blending method. However, organizations that meet the criteria in paragraph ~~.141~~.142 of Section 2100 should be discretely presented, even if they also meet the criterion in paragraph .113b or paragraph .113c.

[GASBIG 2015-1, Q4.30.2]

- .706-3 Q—How is a component unit blended with the primary government?

A—Component units that meet the criteria for blending in paragraph .113 of this section should be included in the reporting entity's fund financial statements in accordance with paragraphs .112–.115 of this section.

For financial reporting purposes, funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. As such, the primary government can choose to present a blended component unit fund separately or aggregate it with other funds of a similar

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fund type (or type of fiduciary fund) with the exception of the primary government's general fund. The combined presentation of the primary government is still subject to major fund considerations and, thus, for example, a blended component unit presented separately as a special ~~revenue~~ resources fund could represent a major fund for the primary government. (See Question .706-19 in this section about major fund reporting.)

[GASBIG 2015-1, Q4.30.3, as amended by GASBS 84, ¶26 and GASBS XX, ¶28]

.706-4 Q—How should a blended component unit (A) that has a discretely presented component unit of its own (B) be included in the primary government's financial reporting entity?

A—Because A meets the criteria for blending, it is presented as if it were part of the primary government, as described in paragraph .112 of this section. Consistent with that notion, B would then be treated as a component unit of the primary government and would be discretely presented. (See Question .704-10 in this section about including discretely presented component units that have component units of their own.)

[GASBIG 2015-1, Q4.30.4]

.706-5 Q—A city has a long-term loan receivable from the local redevelopment agency (RDA). Repayment of the loan will commence in three years. The RDA is a component unit of the city and meets the criteria for blending. When the RDA is included in the city's financial reporting entity, the loan will be reported as an interfund receivable/payable. The RDA uses the governmental fund structure in its separately issued financial statements. In those statements, should the loan from the city be reported as a governmental fund liability to parallel the reporting of the RDA as a blended component unit?

A—No. Within the context of the separately issued financial statements of the RDA, the debt is not fund debt and should not be included in the fund financial statements because it is long-term external debt—a long-term transaction. It would, however, be reported as a liability in the RDA's government-wide statement of net position. When the financial data of the RDA are blended into the funds of the city, the amount due to the city becomes an internal advance and should be reported as a fund liability. In one setting (as a blended component unit), the debt is internal, but in the other (the RDA's separate financial statements), it is not. In the blending process, the liability to the city reported in the RDA's government-wide statement of net position would not

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be carried over to the city's statement of net position, and the fund balance of the RDA should be adjusted (reduced) to reflect the long-term internal payable to the city's general fund.

[GASBIG 2015-1, Q4.30.5, as amended by GASBS XX, ¶13 and GASBIG 2016-1, Q5.4]

.706-6 Q—Paragraph .114 of this section requires that “the general fund of a blended component unit should be reported as a special ~~revenue~~resources fund” of the primary government. However, Section 1300 limits the use of special ~~revenue~~resources funds to account for specific revenue sources that are restricted or committed for specified purposes as set forth in paragraph .105 of that section. Does that paragraph affect the reporting of a blended component unit as a special ~~revenue~~resources fund?

A—No. Paragraph .105 of Section 1300 does not amend the requirement that a general fund of a blended component unit be reported as a special ~~revenue~~resources fund of the primary government. Satisfying the criteria in paragraph .105 is not required in this specific instance.

[GASBIG 2015-1, Q4.30.6, as amended by GASBS XX, ¶128]

.706-7 Q—When a component unit is blended into the same column as a BTA in accordance with paragraph .115 of this section, do internal activities and balances, such as loans between the BTA and the component unit, need to be eliminated?

A—Yes. Elimination of internal balances and transactions is required by Section 2200. An eliminations column should be included in the required disclosure of condensed combining financial statements.

[GASBIG 2015-1, Q4.30.7]

.706-8 Q—For governments that report in a single column for financial statement presentation as discussed in Question .706-7 in this section, paragraph .115 of this section states that “condensed combining information” should be presented in the notes to the financial statements. Is a total column for the primary government required in that disclosure?

A—No. The purpose of the condensed combining financial information is to allow financial statement users to disaggregate the blended component unit information from the single-column presentation.

[GASBIG 2015-1, Q4.30.8]

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.706-9 Q—A state government established a financing authority to issue debt for transportation, public safety, and corrections facilities for the state, and educational facilities for local school districts (approximately one fourth of the total debt outstanding). The state appoints all the members of the authority’s board and has pledged portions of its sales and motor fuel taxes to repay all of the outstanding debt of the authority. How should the financing authority be included in the state’s financial reporting entity?

A—The financing authority should be included as a blended component unit. Even though the authority provides financing services to entities other than the state, the fact that the authority’s debt is to be repaid entirely with resources of the state meets the criteria for blending in paragraph .113c of this section.

[GASBIG 2015-1, Q4.30.9]

.706-10 Q—In the example in Question .706-9 in this section, does the answer change if the debt attributable to the local school districts will be repaid with local property taxes?

A—Yes. The debt attributable to the local school districts represents a substantial portion of the authority’s outstanding debt. Therefore, the state’s resources will not be expected to entirely or almost entirely repay the authority’s debt. If all other facts in the example remain the same, the authority would be reported as a discretely presented component unit.

[GASBIG 2015-1, Q4.30.10]

.706-11 Q—A component unit has a seven-member governing board. Five of the seven members also are city council members (of the municipality that appoints the board). Is the board of the component unit substantively the same as the city council?

A—The two boards are considered “substantively the same” if the five council members also make up a voting majority of the city council and, thus, sufficiently represent the primary government’s *entire* governing body. On the other hand, if the city council comprises 15 members, the 5 members that also serve on the component unit’s board could not sufficiently represent the *entire* governing board of the primary government and the 2 boards would not be considered “substantively the same.” (See also Question .712-6 in Section 2100.)

[GASBIG 2015-1, Q4.31.1]

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.706-12 Q—The five-member governing board of a legally separate organization consists entirely of elected state officials, including the governor. Would this organization qualify to be blended using the criteria in paragraph .113a of this section?

A—Footnote 5 of this section states:

“Substantively the same” means sufficient representation of the primary government’s entire governing body on the component unit’s governing body so that decisions of the primary government cannot be overridden by the component unit....

This criterion will rarely, if ever, apply to a state government because of the impracticality of providing sufficient representation of the state’s entire governing body.

Even if an organization’s board consists entirely of elected state officials, it is unlikely that five elected officials would provide sufficient representation of the state’s entire governing body for the boards to be considered substantively the same. Therefore, the component unit would not be blended.

[GASBIG 2015-1, Q4.31.2]

.706-13 Q—A government hospital is the sole member of a limited liability company (LLC) that is a legally separate entity that provides rehabilitation services to patients. There is no separate board for the LLC. The government hospital officials have approval authority over the LLC’s operating and capital budgets and are responsible for managing the LLC’s operations; therefore, the LLC is a component unit of the hospital. Is the hospital required to use the blending method for this component unit in the hospital’s financial statements?

A—Yes. Paragraph .113a of this section states that a component unit should be included in the reporting entity financial statements using the blending method when the component unit’s governing body is substantively the same as the governing body of the primary government and (a) there is a financial benefit or burden relationship between the primary government and the component unit or (b) management of the primary government has operational responsibility for the component unit. In the absence of a separate governing board of the LLC, the government hospital being the sole member of the LLC is tantamount to the component unit having the same governing board as the primary government. Additionally, the government

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hospital management has operational responsibility for the LLC. Thus, the component unit should be blended within the hospital's financial statements.

[GASBIG 2017-1, Q4.2]

- .706-14 Q—A component unit provides services entirely to the primary government and therefore would be blended under the provisions of paragraph .113 of this section. However, the primary government has no liability for the debt of the component unit. Is it permissible to discretely present the component unit?

A—No. If a component unit meets the criterion for blending in paragraph .113b, it would be reported as if it were part of the primary government. However, organizations that meet the criteria in paragraph ~~.141~~.142 of Section 2100 should be discretely presented, even if they meet the criterion in paragraph .113b. This situation is the same as an enterprise fund with a separate board that issues revenue bonds “payable solely from the revenues” of the enterprise fund and are not a general obligation of the city. A government could describe the extent of its obligation on the face of the financial statements or in the notes to the financial statements.

[GASBIG 2015-1, Q4.32.1]

- .706-15 Q—Does the “sole/exclusive benefit” criteria in paragraph .113b of this section refer to the reporting entity or its residents?

A—The primary government referred to in paragraph .113b is the “institution” rather than the “populace.” Paragraph .113b clarifies the criterion by explaining that the “essence of this type of arrangement is much the same as an internal service fund—the goods or services are provided to the government itself rather than to the citizenry.”

[GASBIG 2015-1, Q4.32.2]

- .706-16 Q—Would an organization that provides services to a primary government's employees meet the criteria to be blended with the primary government?

A—Yes. Paragraph .113b of this section specifically states that the blending criteria may be met by a component unit providing services to a primary government indirectly. For example, a component unit that administers

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employee benefits is providing services indirectly to the primary government, as it provides services directly to the primary government's employees.

[GASBIG 2015-1, Q4.32.3]

- .706-17 Q—A component unit would be discretely presented under the provisions of this section and Section 2100; however, in its day-to-day operations, the component unit does not act as a separate legal entity and operates in the same manner as departments or agencies of the primary government. Can the component unit be reported as part of the primary government or as a blended component unit?

A—Even though a primary government may have the ability to impose its will on an organization to the extent that it gives the appearance that the potential component unit is no longer a separate entity, the separate *legal* standing of the organization would not be compromised. Therefore, the component unit would not be considered an agency or department of the primary government for reporting purposes. If the component unit does not meet the criteria for blending in paragraph .113 of this section, it would be discretely presented.

[GASBIG 2015-1, Q4.32.4]

- .706-18 Q—Paragraph .113b of this section states that a component unit should be blended if it “provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.” In this example, the state lottery qualifies as a component unit. Does the state lottery meet this criterion for blending?

A—No. Even though state lotteries are created primarily to generate revenue for those states, the service provided by a lottery—the opportunity for financial gain—is provided to anyone who chooses to participate. When prizes are awarded to winners and financial gain is achieved, the lottery operation does not exclusively, or almost exclusively, benefit the primary government as an institution.

[GASBIG 2015-1, Q4.32.5]

- .706-19 Q—A city has a component unit that meets the criteria for blending and is included with its special ~~revenue~~resources funds. Do the major fund reporting requirements apply to blended component units?

A—Yes. The concept of blending is based on the notion that certain component units are so closely related to the primary government that they are,

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in substance, the same as the primary government. As stated in paragraph .112 of this section, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. Therefore, if a component unit is blended into the reporting entity's financial statements as a special ~~revenue~~resources fund, for example, it would be evaluated against the major fund criteria with the reporting entity's other governmental funds.

[GASBIG 2015-1, Q7.56.1, as amended by GASBS XX, ¶128]

.706-20 Q—How should unassigned fund balance of the general fund of a blended component unit be classified when it is reported as a special ~~revenue~~resources fund of the primary government?

A—Unassigned fund balance of the general fund of a blended component unit should be reclassified as assigned, committed, or restricted based on the process through which those resources of the component unit could be used for other purposes of the primary government. For example, if the resources of the component unit are restricted to the purposes of the component unit, those resources may be classified as unassigned in the context of the stand-alone financial statement of the component unit but would be considered restricted from the perspective of the primary government.

[GASBIG 2015-1, QZ.54.50, as amended by GASBS XX, ¶128 and GASBIG 2016-1, Q5.41]

.707 Equity Interests in Component Units

.707-1 Q—A housing authority is the general partner of a limited tax credit partnership (a legally separate entity) and is financially accountable for the limited tax credit partnership. Therefore, the housing authority includes it as a component unit. The limited partners have a 99.99 percent equity interest in the limited tax credit partnership. Paragraph .112 of Section J50 requires any equity interest of the minority participants to be reported as restricted net position, nonexpendable; however, paragraph .156 of Section 1800 and paragraph ~~.118~~.119 of Section 2200 require the net investment in capital assets component of net position to include capital assets, net of accumulated depreciation, reduced by outstanding obligations that are attributable to the acquisition, construction, or improvement of those assets. How should the components of net position be classified if the limited tax credit partnership holds capital assets that will revert to the housing authority?

A—Sections 1800 and 2200 do not establish a prioritization for the calculation of the components of net position. Because the housing authority's legal ownership is limited to 0.01 percent of the net position of the limited tax credit partnership, the housing authority should first calculate its 0.01 per-

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cent of each component of net position and then report the remaining 99.99 percent of net position as restricted net position, nonexpendable.

[GASBIG 2016-1, Q4.12, as amended by GASBIG 2017-1, Q5.4]

.708 Intra-Entity Transactions and Balances

No questions assigned.

.709 Reporting Periods

.709-1 Q—How should the financial statements be presented when a component unit has a different year-end than the primary government?

A—Paragraph .119 of this section states that the reporting entity (which reports using the primary government's fiscal year) should incorporate the financial statements for the component unit's fiscal year that ends during the reporting entity's fiscal year. However, if the component unit's fiscal year ends within the first quarter of the reporting entity's subsequent fiscal year, the reporting entity can incorporate that fiscal year of the component unit, rather than the fiscal year ending during the reporting entity's fiscal period. For example, a primary government that has a fiscal year ending December 31, 20X4, can include the data of component units that have fiscal years ending from January 1, 20X4, through March 31, 20X5.

Paragraph .120 of this section states that if transactions with component units that have different fiscal years result in inconsistencies in amounts reported as receivable or payable, or disclosed in the notes (as required by paragraph .110 of this section and paragraph ~~.217~~.219 of Section 2200), the nature and amount of those transactions should be disclosed in the notes to the financial statements. The fiscal year of the component units included in the reporting entity should be consistent from year to year, and changes in fiscal years should be disclosed.

[GASBIG 2015-1, Q4.38.1]

.709-2 Q—Under the provisions of paragraph .119 of this section, the financial statements of the primary government for the year ending June 30, 20X4, incorporate the financial statements of component unit A for the year ending December 31, 20X3. The financial statements of component unit include financial data for its component unit B for the fiscal year ending June 30, 20X3. Therefore, component unit B's data will be one year old when they are "rolled up" into the reporting entity financial statements. How should this information be reported in the reporting entity financial statements?

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A—The reporting entity should incorporate the financial statements of component unit A as described in paragraph .119. This section is applicable to the separately issued financial statements of a component unit. Paragraph .106 of this section states that the financial reporting entity definition should be applied “from the bottom up.” This means that the primary government’s component unit would include the financial data of its component units that have different year-ends based on the guidance provided in paragraph .119, and the primary government would do the same. Therefore, it would be appropriate for component unit A to include the June 30, 20X3, financial information of component unit B in its December 31, 20X3, financial statements. Likewise, it would be appropriate for the reporting entity to include this information in its June 30, 20X4, financial statements through the incorporation of the December 31, 20X3, financial statements of component unit A.

[GASBIG 2015-1, Q4.38.2]

.709-3 Q—Paragraph ~~.152~~^{.153} of Section 2200 states that internal balances should be eliminated from the total primary government column. However, because some governments have blended component units with different fiscal years, the internal accounts may be “out of balance” at the reporting date due to the timing difference. In those situations, is it acceptable to report an internal balance in the total primary government column?

A—Yes. In those instances, the total primary government column would report an internal balance. Paragraph .120 of this section requires the reason for the imbalance to be disclosed in the notes.

[GASBIG 2015-1, Q7.22.10]

.710 Note Disclosures

.710-1 Q—What disclosures are required for organizations that were *considered* for inclusion as component units but did not meet the criteria for inclusion?

A—Except for the disclosures required for related organizations in paragraph .129 of this section, there is no requirement for disclosures about organizations that are not part of the reporting entity. Paragraph .121 of this section requires disclosure of the rationale for *including* the component units, but there is no requirement to explain why an organization is *excluded*— the implication is that, if the criteria for inclusion are met, the organization is included. (See Question .716-2 in this section for further discussion of related organizations.)

[GASBIG 2015-1, Q4.39.3]

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- .710-2 Q—What is the intent of the requirement in paragraph .121 of this section to disclose how the component units are reported?

A—The purpose of the disclosure is to describe to the reader how the financial data of the component unit are displayed. For example, if a component unit of a city was *blended* because its governing board is substantively the same as the primary government's board and there is operational responsibility, the disclosure requirements would be satisfied by stating that "even though it is legally separate, it is reported as if it were part of the city because the city council also serves as the governing board of the component unit and management of the primary government has operational responsibility for the component unit." If a component unit was *discretely presented*, it is sufficient to state that it is "reported in a separate column(s) to emphasize that it is legally separate from the primary government and is governed by a separate board." If there are no discretely presented component units, the notes should not include a discussion of discrete presentation as a method of displaying component unit data. Paragraph .121 provides that "component units may be disclosed together if they have common characteristics as long as each component unit is separately identified."

[GASBIG 2015-1, Q4.39.4]

.711 Focus of the Reporting Entity's Note Disclosures and Required Supplementary Information

- .711-1 Q—Are extensive note disclosures required for component units?

A—The financial statements of the reporting entity should include those discretely presented component unit disclosures that are essential to the fair presentation of the financial reporting entity's basic financial statements. Therefore, to the extent that the disclosures are essential to the fair presentation, they are required. As noted in paragraph .123 of this section, "determining which discretely presented component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit-by-component unit basis." Paragraph 126, in the Basis for Conclusions of Statement No. 14, *The Financial Reporting Entity*, uses the long-term debt disclosure requirements to illustrate how one might decide which component unit disclosures are "necessary for a fair presentation." For example, paragraph .123 states that "if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that debt-related disclosures should be made for that component unit."

[GASBIG 2015-1, Q4.39.1]

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- .711-2 Q—Are individual component unit disclosures required for all discretely presented components?

A—No. Paragraph .108 of this section requires, in certain instances, disclosure of information about each “major” component unit included in the component units column(s). The nature and significance of its relationship to the primary government should be considered to determine which component units are “major.” (See Question .705-4 in this section for further discussion of major component units and Question .710-2 in this section for disclosure of how component units are reported.)

[GASBIG 2015-1, Q4.39.2]

- .711-3 Q—Should disclosures related to discretely presented component units be segregated from disclosures relating to the primary government?

A—Yes. Paragraph .122 of this section states, in part, that the notes “should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units.” This can be accomplished by presenting component unit information after the primary government information for each relevant disclosure or by presenting *all* component unit disclosures after the primary government disclosures.

[GASBIG 2015-1, Q4.39.6]

.712 Primary Government Separate Financial Statements

- .712-1 Q—Can a government choose to issue financial statements that purport to be in conformity with GAAP without any component unit financial data?

A—Paragraph .124 of this section provides:

A primary government may find it useful or necessary (for example, to satisfy specific legal requirements) to issue financial statements that do not include the financial data of its component units. Paragraph .101 states that the provisions of this section apply to financial reporting by primary governments; thus, financial statements that present only the data of the primary government should acknowledge that the financial statements do not include the data of the component units necessary for reporting in conformity with generally accepted accounting principles.

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The intent of paragraph .124 is to clarify that governments may issue “primary government only” financial statements that do not include component unit data to meet certain general purpose needs (for example, a bond issuance); however, those financial statements do not present the *reporting entity* in accordance with GAAP and are intended to supplement, not supplant, the financial statements of the reporting entity.

[GASBIG 2015-1, Q4.42.1]

.712-2 Q—Would it be permissible for financial statements of only the primary government to include a disclosure of the existence of the excluded component units and their relationship to the primary government?

A—Paragraph .124 of this section states that “. . . the primary government should acknowledge that the financial statements do not include the data of the component units necessary for reporting in conformity with generally accepted accounting principles.” Therefore, it would be permissible, but not required, to disclose in the notes the existence of component units and their relationship to the primary government. These additional disclosures, however, are not a substitute for inclusion of the financial data of the component units and do not fulfill the requirements for reporting in accordance with GAAP.

[GASBIG 2015-1, Q4.42.2]

.713 Separately Issued Financial Statements of Component Units

.713-1 Q—A city has a long-term loan receivable from the local redevelopment agency (RDA). Repayment of the loan will commence in three years. The RDA is a component unit of the city and meets the criteria for blending. When the RDA is included in the city’s financial reporting entity, the loan will be reported as an interfund receivable/payable. The RDA uses the governmental fund structure in its separately issued financial statements. In those statements, should the loan from the city be reported as a governmental fund liability to parallel the reporting of the RDA as a blended component unit?

A—No. Within the context of the separately issued financial statements of the RDA, the debt is not fund debt and should not be included in the fund financial statements because it is long-term external debt. a long-term transaction. It would, however, be reported as a liability in the RDA’s government-wide statement of net position. When the financial data of the RDA are blended into the funds of the city, the amount due to the city becomes an internal advance and should be reported as a fund liability. In one setting (as a blended component unit), the debt is internal, but in the other (the RDA’s separate financial statements), it is not. In the blending process, the liability to the city re-

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ported in the RDA’s government-wide statement of net position would not be carried over to the city’s statement of net position, and the fund balance of the RDA should be adjusted (reduced) to reflect the long-term internal payable to the city’s general fund.

[GASBIG 2015-1, Q4.30.5, as amended by GASBS XX, ¶113 and GASBIG 2016-1, Q5.4]

.713-2 Q—Paragraph .125 of this section states that a component unit should apply the provisions of the Statement “as if it were a primary government.” In its separately issued financial statements, can a component unit that has component units of its own refer to itself as the “primary government,” in distinguishing between its data and those of its component units?

A—No. Only those governments that meet the criteria in paragraph .112 of Section 2100 should be referred to as primary governments. Separately issued financial statements for component units and other stand-alone governments can use the specific name of the reporting government rather than the “primary government” label to refer to the data that do not include the component units. For example, the statement of net position for the Sample County Airport (a component unit of Sample County) might resemble the following:

Sample County Airport (A Component Unit of Sample County) Statement of Net Position December 31, 20X4			
Sample County Airport			
Governmental Activities	Business-Type Activities	Total	Component Units

A total column for the reporting entity may be presented, but is not required.

[GASBIG 2015-1, Q4.43.1]

.713-3 Q—Should a component unit title its financial statements as “component unit financial statements” and “component unit financial report”?

A—No. Applying the “bottom-up” provision in paragraph .125 of this section establishes the nature of component unit reporting so that the component unit financial statements do purport to present the component unit’s reporting entity. As a result, a component unit’s financial statements are its “basic financial statements,” and the component unit may issue a “comprehensive annual financial report.” The reporting component unit should ap-

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ply the provisions of this section as if it were a primary government; however, the financial statements should clearly indicate that it is a component unit of another government.

[GASBIG 2015-1, Q4.43.2]

.713-4 Q—Do the provisions of this section apply to the separately issued financial statements of a nongovernmental organization that is a component unit?

A—No. A nongovernmental component unit would not apply the provisions of this section to its separately issued financial statements; however, this section would be applied to the nongovernmental component unit when it is included in the financial statements of the governmental reporting entity. (See Question .704-13 in this section.)

[GASBIG 2015-1, Q4.43.3]

.714 Other Stand-Alone Government Financial Statements

.714-1 Q—Paragraph .127 of this section provides that other stand-alone governments, such as joint ventures, jointly governed organizations, pools, and some special-purpose governments, should apply the provisions of this section “as if they were primary governments” when they issue separate financial statements. Does this mean that these governments are primary governments for financial reporting purposes?

A—No. Only those governments that meet the criteria in paragraph .112 of Section 2100 are primary governments. However, a stand-alone government that does not meet the financial accountability criteria to be included as a component unit in the financial statements of a primary government should apply the provisions of this section “as if it were a primary government” for its financial reporting. For a stand-alone government, the financial reporting entity consists of the stand-alone government and any component units for which it is financially accountable.

[GASBIG 2015-1, Q4.44.1]

.715 Reporting Relationships with Organizations Other Than Component Units

No questions assigned.

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.716 Related Organizations

.716-1 Q—Can a primary government be accountable for an organization because it appoints a voting majority of the board, but not be financially accountable for the organization because it does not have the ability to impose its will on the organization and there is not a potential financial benefit or burden relationship?

A—Yes. The organization would be classified as a related organization. (See Question .716-2 in this section for further discussion of related organizations.)

For example, a port authority was established by the city for the purpose of stimulating commerce and promoting the shipment of goods and cargoes. Its governing board consists of five members appointed by the mayor of the city; however, the city does not appoint the port authority's management. The board members may not be removed except for cause. The port authority determines its budget, issues bonded debt, levies taxes, and sets its rates without the approval of the city. The port authority does not provide a financial benefit, nor does it impose a financial burden on the city. Because the city is unable to impose its will on the authority and there is no financial burden or benefit relationship between the city and the authority, the port authority is not a component unit of the city. However, because the city appoints the voting majority of the authority's board, the port authority should be disclosed as a related organization.

[GASBIG 2015-1, Q4.17.2]

.716-2 Q—What is a related organization?

A—A related organization is one for which a primary government is accountable because it appoints a voting majority of the organization's governing board. (See Question .716-1 in this section for further discussion of appointments.) However, the primary government is not financially accountable because it cannot impose its will on the organization and a financial benefit/ burden relationship does not exist.

For example, a port authority was established by the city for the purpose of stimulating commerce and promoting the shipment of goods and cargoes. Its governing board consists of five members appointed by the mayor of the city; however, the city does not appoint the port authority's management. The board members may not be removed except for cause. The port authority determines the budget, issues bonded debt, levies taxes, and sets its rates without the approval of the city. The port authority does not provide a financial benefit, nor does it impose a financial burden on the city. Be-

cause the city is unable to impose its will on the authority and there is no financial burden or benefit relationship between the city and the authority, the port authority is not a component unit of the city. However, because the city appoints the voting majority of the authority's board, the port authority should be disclosed as a related organization.

[GASBIG 2015-1, Q4.46.1]

SUPPLEMENTAL AND SPECIAL-PURPOSE REPORTING

SECTION 2700

Sources: NCGAS 1, GASBS 34

See also: Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure"

.101 The accounting principles and illustrative procedures in this Codification are designed to enhance fiscal control, facilitate compliance with generally accepted accounting principles and finance-related legal and contractual requirements, and result in financial statements and reports that fulfill many user information needs. As such, they constitute the minimum standards of financial reporting for state and local governments. [NCGAS 1, ¶172]

.102 The finance officer should assume responsibility for preparing supplemental fiscal data needed in reaching essential management decisions, formulating fiscal policy, informing the general and investing public, and submitting financial data to central compiling agencies such as national statistics bureaus. The finance officer should not assume that properly preparing a comprehensive annual financial report (CAFR) or preparing basic financial statements (and required supplementary information) and demonstrating finance-related legal and contractual compliance preclude additional reporting of fiscal data in total or other than by activities, fund types, and major funds and nonmajor funds in the aggregate. Neither generally accepted accounting principles nor finance-related legal and contractual requirements should be construed as establishing maximum reporting requirements. Supplementary information may be equally valuable in meeting other information needs and in providing a better understanding of the finances of the governmental unit. [NCGAS 1, ¶173; GASBS 34, ¶6]

.103 Managers, legislators, and others may want to know the total ~~revenues and other financing sources~~ inflows of short-term financial resources, and the amounts obtained from the various sources, as well as what is accounted for in each fund, fund type, fund category, or activity. Further, a comparison by one governmental unit with another of particular taxes or ~~expenditures~~ outflows of short-term financial resources, if based solely on data of a single fund, can be misleading. [NCGAS 1, ¶174, as amended by GASBS 34, ¶6 and GASBS XX ~~¶2722~~]

.104 Some governmental units have for many years published highly condensed summary financial data, usually as "popular" reports directed primarily to citizens. Often the data in such reports are presented in charts or graphs rather than in financial statements. More recently, several professional association committees and individuals have undertaken research and experimentation directed toward the design of highly condensed summary financial statements for governmental units. Such research and experimentation is encouraged, but at the present time such statements should supplement, rather than supplant, the CAFR or the basic financial statements and required supplementary information. Further, the data in such highly condensed summary statements should be reconcilable with the basic financial statements, and the reader of the summary statements should be referred to the CAFR or basic financial statements of the government. [NCGAS 1, ¶175; GASBS 34, ¶6]

.105 Where additional data are needed—for internal or external, routine or special purpose uses—the finance officer should take the initiative to assure that the accounting system of the governmental unit is sufficiently flexible not only to meet the fundamental requirements of fiscal and legal accountability, but also to facilitate provision of relevant supplemental and special-purpose financial and statistical information on a timely basis. [NCGAS 1, ¶176]

STATISTICAL SECTION

SECTION 2800

Sources: NCGAS 1, GASBS 30, GASBS 44, GASBS XX, GASBIG 2015-1,
GASBIG 2017-2, GASBIG 2018-1

Scope and Applicability of This Section

.101 This section establishes requirements related to the supplementary information presented in a statistical section. This section applies to state and local governmental entities that prepare a statistical section that accompanies the basic financial statements. [GASBS 44, ¶12]

Nature of Statistical Information

.102 Statistical tables present comparative data for several periods of time—often ten years or more—or contain data from sources other than the accounting records. Examples of such nonaccounting information are assessed valuations and tax rates, economic and population data, and the legal debt margin. [NCGAS 1, ¶132]

Focus on the Primary Government

.103 Generally, the information provided in a statistical section should focus on the primary government, rather than on the financial reporting entity.¹ However, in the context of assessing the economic condition of the primary government, it may be advantageous to understand certain information about individual discretely presented component units. Section 2600, “Reporting Entity and Component Unit Presentation and Disclosure,” paragraph 122, addresses the decision-making process for determining which note disclosures might be necessary for individual major component units. It states that:

. . . Determining which discretely presented component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit-by-component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit’s significance relative to the total component units included in the component units column(s) and the individual component unit’s relationship with the primary government.

The approach described in paragraph .122 of Section 2600 also applies to the requirements for management’s discussion and analysis (MD&A) set forth in paragraph .108~~109~~ of Section 2200, “Comprehensive Annual Financial Report.” This section extends the approach described above to the requirements for the statistical section to provide a consistent scope for disclosures throughout the financial report. Just as a primary government should consider whether its relationship with a particular component unit is

¹Unless otherwise noted, for the purposes of this section the term *primary government* includes the primary government and its blended component units, as defined in Section 2100, “Defining the Financial Reporting Entity.” [GASBS 44, fn1]

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such that certain note disclosures and MD&A coverage are considered appropriate, it follows that the primary government should consider whether including information about the component unit in the primary government's statistical section schedules would also be beneficial in assessing the economic condition of the primary government. A decision to present information about a component unit in a note disclosure or MD&A, however, does not necessarily imply that information about that component unit should be included in the statistical section. [GASBS 44, ¶4, as amended by GASBS XX, ¶7]

The Objectives of Statistical Section Information

.104 The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition.² [GASBS 44, ¶5]

.105 Statistical section information should be presented in five categories—financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

- a. *Financial trends information* is intended to assist users in understanding and assessing how a government's financial position has changed over time.
- b. *Revenue capacity information* is intended to assist users in understanding and assessing the factors affecting a government's ability to generate its **own-source revenues**.³
- c. *Debt capacity information* is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.
- d. *Demographic and economic information* is intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitates comparisons of financial statement information over time and among governments.
- e. *Operating information* is intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

[GASBS 44, ¶6]

²Unless otherwise noted, for the purposes of this section the term *government* includes the primary government, its blended component units, and in some cases certain discretely presented component units as discussed in paragraph .103 of this section. [GASBS 44, fn2]

³Terms defined in paragraphs .501–.509 are shown in **boldface type** the first time they appear in this section. [GASBS 44, fn3]

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.106 The objective of providing users with historical perspective is met by presenting information for multiple years. For the information described in this section, governments should present data for the most recent ten years, unless otherwise specified. [GASBS 44, ¶7]

Financial Trends Information

.107 To meet the objectives of providing financial trends information, governments should present, at a minimum, two types of information in statistical section schedules—net position and changes in net position.⁴ [GASBS 44, ¶8, as amended by GASBS 63, ¶8]

Information about Net Position

.108 The three components of net position—net investment in capital assets, restricted, and unrestricted—should be shown separately for governmental activities, business-type activities, and the total primary government. [GASBS 44, ¶9, as amended by GASBS 63, ¶8]

Information about Changes in Net Position

.109 Governments should present the following information separately for governmental activities and business-type activities: expenses by function, program, or identifiable activity; program revenues by category (charges for services, operating grants and contributions, and capital grants and contributions); total net (expense) revenue; general revenues and other changes in net position by type; and total change in net position. Governments should also present individually their most significant charges for services revenue, categorized by function, program, or identifiable activity.

- a. Governments engaged only in business-type activities or only in business-type and fiduciary activities should present revenues by major source for their business-type activities, ~~revenues by major source and should distinguish~~ distinguishing between operating, noncapital subsidy, and other nonoperating revenues and expenses, in the statistical section of their separately issued financial reports.
- b. Governments engaged only in fiduciary activities should present, at a minimum, the following information about changes in net position in the statistical section of their separately issued financial reports: additions by source, deductions by type, and total change in net position. If applicable, these governments should present that information, as well as benefit and refund deductions by type of benefit (for example, age and service benefits, disability) or refund (for example, death, separation), *for each individual pension or other postemployment benefit plan that is reported as a pension (or other employee benefit) trust fund*. Benefit and refund deductions by type may be presented in a separate schedule.

[GASBS 44, ¶10, as amended by GASBS 63, ¶8, GASBS 73, ¶115 and ¶116, GASBS 74, ¶3, ¶58, and ¶59, GASBS 84, ¶14, and GASBS XX, ¶35; GASBS XX, ¶35]

⁴Sometimes other terminology is used, such as *fund net position*, *fiduciary net position*, *plan net position*, *net position*, *changes in fund net position*, *changes in fiduciary net position*, *changes in plan net position*, and *changes in net position*. [GASBS 44, fn4, as amended by GASBS 63, ¶8 and GASBS 67, ¶14]

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.110 At a minimum, governments should present changes in net position information at the level required by paragraph .109 of this section and by Section 2200. Governments may provide greater detail on the face of the schedule or in an accompanying schedule. For example, a government with revenues from several different taxes might prefer to present aggregated tax revenue information in a schedule with other changes in net position data and to provide more detailed information about individual tax sources in an accompanying schedule. [GASBS 44, ¶11, as amended by GASBS 63, ¶8; GASBS XX, ¶10 and ¶35]

Information about Governmental Funds

.111 In addition to information about net position and changes in net position, governments that report governmental funds should present information on fund balances and changes in fund balances.

- a. Governments should present the required classifications of fund balances for both (1) the general fund and (2) all other governmental funds in the aggregate.
- b. Governments should present for total governmental funds: ~~revenues~~inflows of resources from current activities by source, ~~expenditures~~outflows of resources from current activities by function, ~~other financing sources (uses)~~net flows from noncurrent activities and other changes in fund balances by type, and total change in fund balances. For purposes of this schedule, the interest and principal components of outflows of resources for debt service ~~expenditures~~ should be shown separately. A ratio of total debt service ~~expenditures~~outflows of resources (interest and principal combined) to noncapital ~~expenditures~~⁵outflows of resources⁵ should also be presented.

At a minimum, governments should present the information at the level required for governmental fund financial statements. Governments may provide greater detail on the face of the schedule or in an accompanying schedule. [GASBS 44, ¶12, as amended by GASBS 54, ¶5, GASBS 63, ¶8, and GASBS XX, ¶27]

Revenue Capacity Information

.112 To meet the objectives of providing revenue capacity information, governments should present, at a minimum, information about three aspects of their most significant own-source revenue in statistical section schedules—revenue base, revenue rates, and principal revenue payers.⁶ [GASBS 44, ¶13]

⁵Noncapital ~~expenditures~~outflows of resources are calculated by subtracting the following from total ~~expenditures~~outflows of resources from both current and noncurrent activities: (a) capital outlay or capital outflows of resources (to the extent capitalized for the government-wide statement of net position) and (b) ~~expenditures~~outflows of resources for capitalized assets contained within the functional ~~expenditure~~categories: of outflows of resources from current activities. [GASBS 44, fn5, as amended by GASBS 63, ¶8 and GASBS XX, ¶27]

⁶At a minimum, a government should present the information described in paragraphs .113–.119 for its most significant source of own-source revenues. If a government has other own-source revenues that are nearly as significant as its largest source, it should consider presenting revenue capacity information for those own-source revenues as well. [GASBS 44, fn6]

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Information about the Revenue Base

.113 Revenue base information should be shown by major component—for example, different classes of real and personal property, or different types of rate payers. In addition, governments should show the **total direct rate** applied to this revenue base. [GASBS 44, ¶14]

.114 If a government presents revenue base information for a property tax, it should present both the assessed value of taxable property by major component (for example, residential, commercial, and so on) and the total **estimated actual value of taxable property**. If a government assesses the value of property in a manner that does not provide a reasonable basis for estimating the actual value of property, the government should disclose these circumstances on the face of the schedule and explain why the information is not presented. [GASBS 44, ¶15]

Information about Revenue Rates

.115 Each individual **direct rate** applied by the reporting government to the revenue base should be shown separately, as well as the total direct rate. Rates applied by each overlapping government to the revenue base should also be shown separately. Reporting governments with a large number of overlapping governments may aggregate smaller overlapping governments by type and show their rates as ranges. Governments should identify any legal restrictions on their ability to raise their direct rates—for example, a state law requiring that localities obtain the approval of the state legislature or a majority of the voters in a public election. [GASBS 44, ¶16]

.116 For governments that present direct and **overlapping rate** information for property taxes, some overlapping taxing bodies may levy their taxes for different fiscal periods. For purposes of this statistical schedule, the rates used should be based on *taxes payable* by the taxpayers in the same year. [GASBS 44, ¶17]

.117 Overlapping governments are those whose geographic area coincides at least in part with the geographic area of the reporting government. State governments are not required to present information about the revenue rates of the overlapping governments within their borders, and governmental entities other than state governments are not required to present overlapping state government revenue rates. Regional governments are encouraged, but not required, to present information about the revenue rates of their overlapping governments. [GASBS 44, ¶18]

Information about Principal Revenue Payers

.118 For the current year and the period nine years prior, governments should identify the payers (or remitters, where appropriate) of their most significant own-source revenue, the amount of revenue base (as described in paragraphs .113 and .114) attributable to each or actual taxes levied on each, and the percentage of each amount

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relative to the total revenue base or total taxes levied, respectively. Governments should present the ten largest payers in terms of revenue base or taxes levied, unless fewer are needed to reach 50 percent of the total revenue base or total taxes levied, respectively. [GASBS 44, ¶19]

.119 Governments that are legally prohibited from disclosing individual revenue payers should present other information that assists users in understanding the degree to which the sources of own-source revenue may be concentrated. For example, governments presenting revenue capacity information about a personal income tax might prepare a schedule of personal income tax revenue by income level, for the current year and the period nine years prior. [GASBS 44, ¶20]

Information about Property Tax Levies and Collections

.120 If a government presents revenue capacity information about a property tax, it should also present information about property tax levies and collections. For each of the last ten periods for which a property tax is levied,⁷ a government should present:

- a. The amount levied for that period
- b. The amount collected prior to the end of that period and the percentage of the total levy that amount represents
- c. The amount of the levy collected in subsequent years, the total amount collected to date, and the percentage of the total levy that has been collected to date.

[GASBS 44, ¶21]

Debt Capacity Information

.121 To meet the objectives of providing debt capacity information, governments should present, at a minimum, four types of information in statistical section schedules—ratios of outstanding debt, direct and overlapping debt, debt limitations, and pledged-revenue coverage. [GASBS 44, ¶22]

Information about Ratios of Outstanding Debt

.122 Governments should present each type of outstanding debt individually—for example, general obligation bonds, revenue-backed bonds, loans, certificates of participation,

⁷The phrase *periods for which a property tax is levied*, as used in this section, is consistent with the meaning of the phrase *in the period for which they are levied* established in Section N50, “Nonexchange Transactions.” The period referred to in subparagraph b is the period for collecting and distributing taxes that ends when the collector makes final scheduled distribution of the current year’s taxes and begins the levy and collection process for the next year’s taxes. [GASBS 44, fn7]

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leases—and divided between debt related to governmental activities and debt related to business-type activities. A total for the primary government should be shown. [GASBS 44, ¶23, as amended by GASBS 87, ¶20]

.123 Governments should present an outstanding debt ratio calculated by dividing total outstanding debt by total personal income. Total personal income amounts should be presented with this information or with the demographic and economic information. If total personal income amounts are not available for a government's jurisdiction, estimated actual value of taxable property or another relevant economic base should be used as the denominator in this ratio. A *per capita* ratio of total outstanding debt should also be presented; if population is not an appropriate basis, a more relevant alternative may be used to calculate the ratio. For example, a public utility might prefer to divide outstanding debt by the number of customers or rate payers. [GASBS 44, ¶24]

Information about Ratios of General Bonded Debt

.124 Governments that issue general obligation debt or other bonded debt financed with any general governmental resources should provide additional information about ratios of general bonded debt. Each type of general bonded debt—for example, general obligation bonds, tax-backed bonds—should be shown individually and totaled. If a government has accumulated resources that are restricted⁸ to repaying the *principal* of outstanding general bonded debt, these resources should be subtracted and the resulting amount referred to as net general bonded debt. [GASBS 44, ¶25]

.125 Governments should present a general bonded debt ratio calculated by dividing total general bonded debt (or net general bonded debt, if applicable) by the total estimated actual value of taxable property. If a government's general bonded debt is not repaid with property taxes, an alternative revenue base may be used to calculate the ratio. A per capita ratio of total general bonded debt should also be presented; if population is not a meaningful basis for the ratio, a more relevant alternative may be used to calculate the ratio. [GASBS 44, ¶26]

Information about Direct and Overlapping Debt

.126 Governments that are engaged in governmental activities should provide information about direct and overlapping debt. For each type of outstanding debt attributable to governmental activities of an overlapping governmental entity, as defined in paragraph .117, the reporting government should present the following information *for the current year*: the total amount outstanding, the percentage of overlap between the reporting and overlapping governments, and the product of the debt outstanding multiplied by the percentage of overlap. The products for overlapping debt should be totaled, and total **direct debt** and total **direct and overlapping debt** should also be shown.

⁸The meaning of *restricted* is defined in paragraph .119 of Section 2200. [GASBS 44, fn8]

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State governments are not required to present this information in the statistical section, and governmental entities other than state governments are not required to present overlapping state government debt. County and regional governments are encouraged, but not required, to present information about direct and overlapping debt. [GASBS 44, ¶27]

.127 The percentage of overlap between the reporting government and the overlapping government should be determined by dividing (a) the amount of the revenue base from which the debt is repaid that is contained within the overlapping area by (b) the total revenue base of the overlapping government. For example, if an overlapping government's debt is repaid with property taxes, the percentage of overlap would be the value of the property in the overlapping area divided by the total value of property of the overlapping government. If information for the relevant revenue base is not available, or if debt is not repaid with resources derived from a specific base, an alternative base may be used, such as population or personal income. Governments should explain the methodology and denominator employed to determine the percentage of overlap for each type of debt. [GASBS 44, ¶28]

Information about Debt Limitations

.128 Governments with legal debt limitations should provide the information upon which their legal debt margin is required to be calculated *for the current year*. A typical legal debt margin presentation would include the following information:

- a. Relevant revenue base (for example, property value)
- b. Debt limit amount; governments should also explain the nature of the limitation
- c. Debt applicable to the limit, reserves to be deducted, if any, and total net debt applicable to the limit
- d. Legal debt margin amount.

For the last ten years, governments should present the debt limit amount, total net debt applicable to the limit, the legal debt margin amount, and a ratio calculated by dividing either the legal debt margin amount or total net debt applicable to the debt limit by the debt limit. [GASBS 44, ¶29]

Information about Pledged-Revenue Coverage

.129 Governments should present information about pledged-revenue coverage for non-general obligation debt that is secured by a pledge of a specific revenue stream. For each type of debt backed by pledged revenues, governments should present gross revenues (and, if applicable, specific operating expenses, to produce *net* available revenues), principal and interest requirements, and a **coverage ratio**. The nature of the revenues pledged for each type of debt should also be explained (for example, charges for services, room and board fees, special assessments, incremental property and sales taxes, and lease rental payments). [GASBS 44, ¶30]

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Demographic and Economic Information

.130 To meet the objectives of providing demographic and economic information, governments should present relevant demographic and economic indicators and information about principal employers in statistical section schedules. [GASBS 44, ¶31]

Information about Demographic and Economic Indicators

.131 At a minimum, governments should present the following demographic and economic indicators: population, total personal income (if it is not presented with the ratios of outstanding debt; see paragraph .123), *per capita* personal income, and unemployment rate. [GASBS 44, ¶32]

.132 A government should attempt to obtain the most current data and the data that are the most specific to that particular government. If the required indicators are not applicable to a special-purpose government, it should provide alternative indicators that are considered relevant. [GASBS 44, ¶33]

Information about Principal Employers

.133 For the current year and the period nine years prior, governments should identify the principal employers in its jurisdiction, the number of persons each employs, and the percentage of total employment that each represents. Governments should present the 10 largest employers in terms of number of persons employed, unless fewer are needed to reach 50 percent of total employment. [GASBS 44, ¶34]

Operating Information

.134 To meet the objectives of providing operating information, governments should present, at a minimum, three types of information in statistical section schedules—number of government employees, operating indicators, and capital asset information. [GASBS 44, ¶35]

Information about Government Employees

.135 Governments should present the number of persons they employ by function, program, or identifiable activity, at least at the level of detail required for expenses by Section 2200, paragraph .129.130. Governments may categorize the information differently if they cannot report it on a functional, programmatic, or identifiable activity basis or if it would be more meaningful to do so. [GASBS 44, ¶36]

Information about Operating Indicators

.136 Governments should present available indicators of *demand or level of service* at the level of detail described in paragraph .135. For example, a municipal government

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might report crime rates, number of arrests, and number of responses to 911 calls as indicators for its police activity. [GASBS 44, ¶137]

Information about Capital Assets

.137 Governments should present available indicators of the *volume, usage, or nature* of their capital assets at the level of detail described in paragraph .135. For example, a city government might report lane-miles of streets and highways, estimated vehicle-miles traveled on highways, miles of water mains and sewers, and average daily water consumption for its public works function. [GASBS 44, ¶138]

Operating Information Reported by Pension and Other Postemployment Benefit Plans in Separately Issued Reports

.138 At a minimum, three types of operating information should be presented in the statistical section schedules of separately issued reports—retired members by type of benefit, average benefit payments, and principal participating employers—for *each individual pension or other postemployment benefit plan that is reported as a pension (or other employee benefit) trustfund*.

- a. Information about retired members by type of benefit should be presented *for the current year*. Typically, the number of retired members, organized by ranges of benefit levels and by the major features of the plans, should be presented. Major features commonly include (1) types of retirement benefits (for example, normal retirement, disability retirement, beneficiary payment), (2) types of other postemployment benefits (such as health insurance, dental coverage, life insurance), and (3) plan options (such as various provisions for payments to beneficiaries).
- b. Information about the average monthly benefit, average final average salary, and number of retired members should be presented—organized by years of credited service in five-year increments.
- c. For multiple-employer plans, information about the principal participating employers, the number of covered employees each has, and the percentage of total covered employees that each represents should be presented for the current year and the period nine years prior. The ten largest employers in terms of number of covered employees should be presented, unless fewer are needed to reach 50 percent of total covered employees.

[GASBS 44, ¶139, as amended by GASBS 73, ¶115 and ¶116 and GASBS 74, ¶3, ¶158, and ¶159]

Additional Information

.139 Governments may provide information in the statistical section in addition to the information required by this section if it meets the objectives established in paragraph .105. [GASBS 44, ¶140]

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Sources, Assumptions, and Methodologies

.140 Governments should identify the sources of all information that does not appear in the basic financial statements, notes to basic financial statements, or required supplementary information. Governments should also explain methodologies used to produce information, as well as any significant assumptions made. For example, governments that report revenue capacity information about a property tax should describe the frequency with which property is assessed and explain how estimated actual value is determined and how it relates to assessed value. [GASBS 44, ¶41]

Narrative Explanations

.141 Governments should use narrative explanations to enhance the understandability of the statistical section's quantitative information. Narrative explanations in the statistical section should be primarily analytical in nature, although for some data explanations may be educational as well. Professional judgment should be used in deciding if it is appropriate to present narrative explanations and, if appropriate, what type of explanation and its extent. Generally, there are four types of narrative explanations in the statistical section:

- a. Explanations of the objectives of statistical section information in general and the five categories of statistical section information, as well as individual schedules of information, if appropriate.
- b. Explanations of basic concepts that may be unfamiliar to the users of the financial report.
- c. Explanations that identify relationships among the information in various statistical section schedules, as well as between the statistical section and information in other sections of the financial report.
- d. Explanations of atypical trends and anomalous data that the users of the financial report would not otherwise understand. Such trends and data may result from infrequent incidents, changes in underlying assumptions or accounting methods, organizational restructuring, major policy changes, or other events.

[GASBS 44, ¶42]

Required Supplementary Information Presented with Statistical Tables

.142 Public entity risk pools that are included as part of a sponsoring government's reporting entity and that do not issue separate financial reports should present the required supplementary information after the notes to the reporting entity's financial statements. However, if the reporting entity issues a CAFR, those pools may present the required supplementary information as statistical information. See Section Po20, "Public Entity Risk Pools," paragraph .147. [GASBS 30, ¶7 as amended by GASBS 44, ¶2 and ¶6]

Statistical Section

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DEFINITIONS

.501 The following paragraphs contain definitions of certain terms as *they are used in this section*; the terms may have different meanings in other contexts.

.502 **Coverage ratio.** A measure of the magnitude of resources available to pay the interest on and repay the principal of debt backed by pledged revenues. For each type of debt backed by pledged revenues, a coverage ratio is generally calculated by dividing gross pledged revenues or pledged revenues net of specific operating expenses by the sum of interest expenses and principal repayments. [GASBS 44, ¶45]

.503 **Direct debt.** The outstanding long-term debt instruments—including bonds, notes, certificates of participation, loans, and leases—of the government preparing the statistical section information. [GASBS 44, ¶45, as amended by GASBS 87, ¶20]

.504 **Direct rate.** An amount or percentage applied to a unit of a specific revenue base by the government preparing the statistical section information—for example, a property tax rate of \$1 per \$1,000 of assessed property value, a sales tax rate of 5 percent of a retail sale, or a water charge of a certain amount per 100 gallons of water used. [GASBS 44, ¶45]

.505 **Estimated actual value of taxable property.** The fair value of taxable real or personal property or a surrogate measure of fair value if actual fair value information is not available. In practice, fair value is often referred to as *market value*. The estimated actual value of taxable property may be determined in a variety of manners, such as through a system that tracks changes in market values by monitoring property sales or by dividing the assessed value of property by an assumed assessment percentage. [GASBS 44, ¶45]

.506 **Overlapping debt.** The outstanding long-term debt instruments—including bonds, notes, certificates of participation, loans, and leases—of governments that overlap geographically, at least in part, with the government preparing the statistical section information. [GASBS 44, ¶45, as amended by GASBS 87, ¶20]

.507 **Overlapping rate.** An amount or percentage applied to a unit of a specific revenue base by governments that overlap geographically, at least in part, with the government preparing the statistical section information. [GASBS 44, ¶45]

.508 **Own-source revenues.** Revenues that are generated by a government itself, such as tax revenues and water and sewer charges. Investment income is also an own-source revenue. Intergovernmental aid and shared revenues are not own-source revenues. [GASBS 44, ¶45]

.509 **Total direct rate.** The weighted average of all individual direct rates applied by the government preparing the statistical section information. [GASBS 44, ¶45]

Statistical Section

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GASB IMPLEMENTATION GUIDES

.701 Scope and Applicability of This Section

- .701-1 Q—Are all governments required to present a statistical section in their financial reports?

A—No. Governments are required to present a statistical section only if they prepare a CAFR. This section should be applied by any government that publishes a CAFR.

[GASBIG 2015-1, Q9.2.1]

- .701-2 Q—If a government presents a statistical section in its financial report but does not prepare a full CAFR, should it apply this section?

A—Yes. This section applies to any statistical section that accompanies a government's basic financial statements, regardless of whether the statistical section appears in a CAFR or in any other type of financial report.

[GASBIG 2015-1, Q9.2.2]

- .701-3 Q—If a government publishes a statistical section separately from its financial report, should it apply this section?

A—A government may apply this section to a freestanding statistical section but is not required to do so. However, the term *statistical section* is governmental accounting terminology that conveys certain expectations about the information that will be presented, based on the requirements of governmental accounting and financial reporting standards. Consequently, a government that *does not* apply this section may wish to consider giving its document a different title to avoid misleading the users of the document.

[GASBIG 2015-1, Q9.2.3]

- .701-4 Q—May a government present some, but not all, of the required statistical section information in its annual financial report?

A—Yes. Governments are encouraged to apply this section to any statistical section information they present with their basic financial statements, notes, and required supplementary information. However, if a government does not fully implement this section, *it should not refer to that portion of its financial report as a statistical section*. Labeling an incomplete presentation

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a statistical section could mislead a financial report user into believing that all of the required information is present.

[GASBIG 2015-1, Q9.2.4]

.702 Nature of Statistical Information

No questions assigned.

.703 Focus on the Primary Government

.703-1 Q—Are governments required to present information about their discretely presented component units in the statistical section?

A—The focus of the statistical section is principally on the primary government, including its blended component units. For the purpose of deciding whether to include information about discretely presented component units in the statistical section, paragraph .103 of this section directs governments to apply the decision-making process outlined in paragraph .122 of Section 2600, just as they do when considering whether to address those component units in the notes to the financial statements and management's discussion and analysis. For example, if a government is obligated in some manner for the debt of one of its component units, it would consider whether to include that debt in its revenue capacity schedules.

[GASBIG 2015-1, Q9.3.1]

.703-2 Q—If a government presents information about one or more of its discretely presented component units in the notes to the financial statements or MD&A, is it required to include those component units in its statistical section schedules?

A—No. The determination of whether to include information about a discretely presented component unit in the statistical section is independent of the determinations made for the notes and MD&A. The objectives of the statistical section are different from those of note disclosures and MD&A. Consequently, it may be important to address a component unit in a note or in MD&A, but not important to include it in the statistical section schedules. Conversely, although a government may not deem it necessary to include information about a discretely presented component unit in its notes or MD&A, it may believe that including the component unit is necessary to achieve the objectives of one or more of the categories of statistical section information outlined in paragraph .105 of this section.

[GASBIG 2015-1, Q9.3.2]

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.703-3 Q—If a government determines that it should include information about a discretely presented component unit in one of its statistical section schedules, should it include that component unit in all of its schedules?

A—Not necessarily. Including information about a discretely presented component unit may be necessary to achieve the objectives of one type of statistical section information, but not others. For instance, if a government's guarantee of a component unit's debt leads it to include that outstanding debt of the component unit in the government's statistical section, it is not necessarily required to include other information about the component unit in the financial trends or operating information schedules.

[GASBIG 2015-1, Q9.3.3]

.704 The Objectives of Statistical Section Information

.704-1 Q—Should the individual years be presented in columns, with the earliest year on the left and the most recent year on the right, as illustrated in this section? Is a government required to present the individual years in columns, or may they be presented in rows instead?

A—As long as the required information is presented, governments may order the information in any fashion that they, in their professional judgment, deem to be most effective.

[GASBIG 2015-1, Q9.49.1]

.704-2 Q—Do the schedules have to be presented in the order listed in this section and aggregated by the five categories of information identified in paragraph .105 of this section?

A—No. This section does not require a particular order for the schedules within each category of statistical section information.

[GASBIG 2015-1, Q9.49.2]

.705 Financial Trends Information

No questions assigned.

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.706 Information about Net Position

.706-1 Q—Should restricted net position be reported by major category, as required by paragraph .161 of Section 1800, “Classification and Terminology,” for the government-wide and proprietary funds statements of net position?

A—A government may do so voluntarily, but the basic requirement of paragraph .108 of this section is to report *total* restricted net position.

[GASBIG 2015-1, Q9.6.1]

.707 Information about Changes in Net Position

.707-1 Q—Is it acceptable to present expenses by object—such as salaries, fringe benefits, supplies, contractual services, and so on—instead of by function, program, or identifiable activity?

A—No. Expenses by object may be a useful complement to the presentation of expenses by function or program. However, *it is not an acceptable substitute* for the required functional, programmatic, or identifiable activity categorization of expenses.

[GASBIG 2015-1, Q9.7.1]

.707-2 Q—If a government presents additional detail in its statement of activities beyond the minimum requirements of Section 2200, is it required to present the same level of detail in the statistical section schedule of changes in net position?

A—No. Paragraph .110 of this section sets the required level of detail for information about changes in net position “at the level required by paragraph .109 of this section and by Section 2200.” However, this section does encourage the presentation of additional detail that is meaningful to financial report users and helps to meet the objectives set forth in paragraph .105 of this section.

[GASBIG 2015-1, Q9.7.3]

.707-3 Q—Should all of the changes in net position information be presented in a single schedule?

A—As long as the basic information required by this section is presented, governments have considerable leeway in deciding how to present it. A government may present all of the changes in net position information in a single

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schedule, similar to the way the information is presented in the financial statements. Alternatively, a government may decide that the information is more accessible when divided among multiple schedules—for example, expenses in one schedule; program revenues and net revenue/(expense) in a second; and general revenues, other changes in net position, and total change in net position in a third. (See the illustrative changes in net position schedules in Exhibits A-3, E-2, E-4, and E-5 in nonauthoritative paragraph .903 of this section, for example.)

[GASBIG 2015-1, Q9.7.4]

.707-4 Q—Are governments required to present the changes in net position information in a particular order?

A—No. The schedule of changes in net position may follow an order of presentation different from that of the statement of activities or statement of revenues, expenses, and changes in fund net position. (For an example of a different organization of the information, see Exhibit C-19 in nonauthoritative paragraph .903 of this section, which presents the expense and program revenue information separately for governmental and business-type activities.)

[GASBIG 2015-1, Q9.7.5]

~~.707-5 Q—Are governments engaged only in business-type activities required to present information about changes in net position other than operating and nonoperating revenues and expenses?~~

~~A—Yes. The changes in net position information should lead to a total change in net position amount for each of the last 10 years, as required by paragraph .109 of this section. Therefore, other changes in net position—such as capital contributions and additions to permanent endowments—also should be presented, not just revenues and expenses.~~

~~[GASBIG 2015-1, Q9.8.1, superseded by GASB XX ¶30]~~

.707-65 Q—Are governments engaged only in fiduciary activities required to present schedules with the information about changes in net position that other types of governmental entities prepare, in addition to those schedules specifically required in paragraph .109b of this section, for governments engaged only in fiduciary activities?

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A—No. The information described in paragraph .109b is intended to be presented *in lieu of* the information required by paragraphs .109 and .109a of this section.

[GASBIG 2015-1, Q9.8.2]

.707-76 Q—If a government engaged in governmental or business-type activities has a pension or other postemployment benefit plan, is it required to present the information required for governments engaged only in fiduciary activities?

A—No. The information in paragraph .109b of this section is required to be presented only by governments that conduct only fiduciary activities, such as pension and other postemployment benefit plans, in their separately issued financial reports. However, a government employer may present this information voluntarily, particularly if its plan does not prepare a statistical section.

[GASBIG 2015-1, Q9.8.3]

.708 Information about Governmental Funds

.708-1 Q—A government significantly revises its governmental funds structure, thereby creating inconsistent information in the trends prior to and following the revision. How should the government report information about governmental funds?

A—To the extent that the revision resulted in functions (along with their assets, liabilities, and fund balances) being shifted from the general fund to any of the other governmental funds (or vice versa), the government could restate the information about fund balance prior to the change to be consistent with the information after the change. At a minimum, the government should clearly note that the information before and after the change is not comparable and should explain the nature of the difference.

Because governments are required to report changes in fund balance information for total governmental funds, the revision of the fund structure would not affect the information unless reallocations were made between the governmental funds and either the proprietary or fiduciary funds. Reallocations within the governmental funds would not impact the total amounts.

[GASBIG 2015-1, Q9.9.1]

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.708-2 Q—Should restricted, committed, and assigned fund balances be presented by purpose, as required by Section 1800, for the ~~governmental funds~~short-term financial resources balance sheet?

A—Paragraph .111a of this section requires presentation of the required *classifications* of fund balance. Governments may present restricted, committed, and assigned fund balances by purpose in the statistical section to the extent they believe it would be meaningful to the users of their financial reports and would help to achieve the objectives of financial trends information.

[GASBIG 2015-1, Q9.10.1, as amended by GASBS XX, ¶11]

.708-3 Q—May a government present fund balance information individually for some or all of its governmental funds other than the general fund?

A—Paragraph .111a of this section requires that fund balance information be presented for the general fund and for the sum of all other governmental funds. Governments may present fund balance information for any major or nonmajor fund individually if they believe it would be meaningful to the users of their financial reports and would help to achieve the objectives of financial trends information. The fund balance information for all other governmental funds in the aggregate should not include any funds presented individually.

[GASBIG 2015-1, Q9.10.3]

.708-4 Q—May a government present governmental funds ~~revenue and expenditure~~inflows of resources and outflows of resources information on a budgetary basis?

A—No. The governmental funds statistical section schedules should contain the same information ~~prepared on a current~~presented applying the short-term financial resources measurement focus and ~~modified~~ accrual basis of accounting as the governmental funds financial statements. If a government previously presented budgetary-basis information, at a minimum the government should clearly note that the information before and after the change is not comparable and should explain the nature of the difference.

[GASBIG 2015-1, Q9.11.1, as amended by GASBS XX, ¶12 and ¶27]

.708-5 Q—Are governments required to present a separate schedule of inflows of tax ~~revenues~~resources by source?

A—No. Paragraph .111 of this section states that governments should, at a minimum, present changes in fund balance information at the level re-

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quired by Section 2200 for the governmental funds statement of ~~revenues, expenditures, and changes in fund balances~~ short-term financial resource flows. However, paragraph .111 also states that governments may provide additional detail on the face of the schedule or in an accompanying schedule.

[GASBIG 2015-1, Q9.11.2, as amended by GASBS XX, ¶11 and ¶27]

.708-6 Q—May a government present information about debt service ratios in a separate schedule, rather than combining it with the information about changes in governmental fund balances?

A—Yes. This section eliminated a previous requirement to present a separate schedule because it repeated information already presented in other schedules. However, as long as a government meets the requirements of this section—specifically, that debt service be shown in its principal and interest components, and that the ratio be calculated as (total debt service ÷ total noncapital ~~expenditures~~ outflows of resources)—the information can appear in the same or a separate schedule. If a government presents a separate schedule, it would be helpful to include a note in the changes in fund balances schedule directing the reader to the debt service ratio information. (For example, see the note in Exhibit I-7 in nonauthoritative paragraph .902 of this section, which directs the reader to the schedule in Exhibit I-15 of that paragraph.)

[GASBIG 2015-1, Q9.11.3, as amended by GASBS XX, ¶27]

.708-7 Q—May a government present a ratio of debt-service-to-total-~~expenditures~~ outflows of resources, capital-outlay-to-total-~~expenditures~~ outflows of resources, or capital-~~expenditures~~ outflows of resources-to-total-~~expenditures~~ outflows of resources in the schedule of changes in fund balance in addition to the ratio of debt-service-to-noncapital-~~expenditures~~ outflows of resources required by this section?

A—Yes, if the government believes it would be meaningful to the users of its financial report and would help to achieve the objectives of financial trends information. It may not be presented as a substitute for the required ratio, however.

[GASBIG 2015-1, Q9.11.4, as amended by GASBS XX, ¶27]

.708-8 Q—How can a government obtain the noncapital ~~expenditures~~ outflows of resources required to calculate the debt service ratio?

A—Noncapital ~~expenditures~~ outflows of resources equal total governmental fund ~~expenditures~~ outflows of resources from both current and noncurrent activities, less:

a. The amount reported separately in the changes in fund balances sched-

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ule as capital outlay or capital ~~expenditures~~ outflows of resources (to the extent capitalized for the government-wide statement of net position), and

- b. Any ~~expenditures~~ outflows of resources for capitalized assets contained within the functional ~~expenditure~~ outflows of resources categories.

The sum of these two amounts should be reported by the government as a reconciling item in its reconciliation of the statement of ~~revenues, expenditures, and changes in fund balances~~ short-term financial resource flows of the governmental funds to the statement of activities.

[GASBIG 2015-1, Q9.11.5, as amended by GASBS XX, ¶11 and ¶27]

.709 Revenue Capacity Information

- .709-1 Q—A county government’s largest revenue source, its sales tax, is collected on its behalf by the state government. Does the fact that the state collects the tax mean that the tax is not an own-source revenue of the county?

A—No. The fact that the county imposes the tax makes it an own-source revenue. The fact that the state collects the tax on the county’s behalf is not relevant. Likewise, a property tax imposed by a village would be one of its own-source revenues even if a town or county collected the property tax on the village’s behalf.

[GASBIG 2015-1, Q9.12.2]

- .709-2 Q—All of a governmental entity’s revenue is provided by other governments; it does not impose any taxes or charge any fees of its own. Should this government present the revenue capacity schedules?

A—No. This government does not have any own-source revenues and therefore would not present revenue capacity schedules in the statistical section.

[GASBIG 2015-1, Q9.12.3]

- .709-3 Q—If a government does not have a property tax but does assess a sales tax, does it have to present schedules of revenue capacity information?

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A—Yes. The revenue capacity schedules are intended to provide information about a government's most significant own-source revenue(s), regardless of whether it is a property tax.

[GASBIG 2015-1, Q9.12.4]

.709-4 Q—Is a government engaged only in fiduciary activities, such as a pension or other postemployment benefit (OPEB) plan, required to present any of the revenue capacity schedules?

A—No. Inflows for governments engaged only in fiduciary activities are additions, not revenues. However, governments may wish to voluntarily provide information in the statistical section related to the most significant sources of additions to its net position, if it believes the information will help to achieve the objectives of revenue capacity information. For example, a government might present a schedule of employer and employee contribution rates for the past 10 fiscal years; such a schedule might be analogous to revenue rate information. (See Exhibit H-3 in nonauthoritative paragraph .902, for example.) If such a government wanted to present information about investment income, which is a significant revenue source for many pension and OPEB plans, it might present information similar to that discussed in the answer to Question .709-14 in this section.

[GASBIG 2015-1, Q9.12.5, as amended by GASBIG 2016-1, ¶3]

.709-5 Q—May a government present revenue capacity information about more than one of its own-source revenues?

A—Yes. In addition to its most significant own-source revenue, a government may present revenue capacity information about as many of its other own-source revenues as it believes will help to meet the objectives of revenue capacity information. For each own-source revenue it chooses to report, however, a government should present the full complement of schedules—revenue base, revenue rates, principal payers, and (if applicable) property tax levies and collections.

[GASBIG 2015-1, Q9.13.1]

.709-6 Q—If a government has two own-source revenues that are roughly equal in size, should it present revenue capacity schedules for both?

A—Governments are required to present revenue capacity information only for one revenue source—their most significant own-source revenue. However, a government with two own-source revenues that produce similar amounts of resources should consider presenting schedules for both. For each own-source revenue it chooses to report, a government should

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present the full complement of schedules—revenue base, revenue rates, principal payers, and (if applicable) property tax levies and collections.

[GASBIG 2015-1, Q9.13.2]

.709-7 Q—What should a government do if, over time, another revenue source grows to be larger than the revenue it has been reporting as its most significant own-source revenue?

A—Although it is not required to do so, under such a scenario a government might best serve the users of its financial report by presenting schedules for both own-source revenues. A government also might consider beginning to present revenue capacity information for an own-source revenue as it is nearing the size of the own-source revenue already being reported, rather than waiting until it has surpassed the present own-source revenue.

The alternative—ceasing to report the first own-source revenue in favor of reporting the newly most significant own-source revenue—potentially could be detrimental to financial report users in at least two ways. Users would no longer be able to analyze the revenue source for which they previously had information. Furthermore, if the government begins to report revenue capacity information for the new most significant own-source revenue prospectively and does not immediately present information for the full 10 years, users will not have any revenue capacity trend information at all. Nevertheless, a government is not required to present information about more than one own-source revenue.

[GASBIG 2015-1, Q9.13.3]

.709-8 Q—Prior to the implementation of this section, a government presented the required property tax schedules in its statistical section. However, this government's largest own-source revenue is a sales tax, which produces twice as much revenue as its property tax. Should the government continue to report the property tax as its most significant own-source revenue, or should it report the sales tax instead?

A—In general, such a government would present revenue capacity schedules about the sales tax. If the information about the property tax is important to the users of its financial report, the government could present revenue capacity schedules for the property tax as well.

[GASBIG 2015-1, Q9.13.4]

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.709-9 Q—A government levies two separate property taxes—one on real estate and another on vehicles and heavy equipment. For the purpose of determining its most significant own-source revenue, should the taxes be treated as separate revenue sources or as a single revenue source?

A—Governments tend to aggregate all of their ad valorem property taxes, even when separate levies with differential tax rates are applied to different kinds of property. Consequently, total property tax revenue is considered when determining if the property tax is a government's most significant ~~own-source~~ own source revenue. A single set of schedules could be prepared for the aggregate property tax, although different types of property would be identified in the revenue base and revenue rate schedules.

Alternatively, a government could treat the two property taxes separately, presenting revenue capacity schedules for one, both, or neither depending on how they compare with the government's other own-source revenues. Neither approach is required. A government should choose the approach that would be most meaningful to the users of its financial report.

[GASBIG 2015-1, Q9.13.5]

.709-10 Q—A county government that imposes its own sales tax also receives a portion of the revenue from the state's sales tax. Should both amounts be combined when considering whether the sales tax is the county's most significant own-source revenue?

A—No. The portion of the state's sales tax that the county receives is shared revenue, not own-source revenue. Only the sales tax revenue derived from the tax imposed by the county itself should be considered.

[GASBIG 2015-1, Q9.13.6]

.709-11 Q—A government has a water utility that is not a legally separate organization and therefore reports it as an enterprise fund. The operating revenue (water charges) is much larger than any of the government's other own-source revenues—water charges represent 50 percent of the government's total own-source revenues and its property tax represents 25 percent. Should the government present revenue capacity schedules for the water charges rather than its property tax, which otherwise would be its largest own-source revenue?

A—A government's "most significant own-source revenue" often is interpreted as being the *largest* of its own-source revenues. However, as it relates to own-source revenue, "significance" may have both quantitative and *qualitative* aspects. For example, the significance to a government of its

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water charges may not solely be a product of the overall magnitude of the revenues but also may relate to the degree to which those revenues support the government in general. If the enterprise is essentially self-sustaining and provides no financial support to the government as a whole, then it might be reasonable to conclude that the own-source revenue most significant to the government and the readers of its financial report is the largest revenue the government levies for its general support.

[GASBIG 2015-1, Q9.13.7]

- .709-12 Q—A government presenting revenue capacity information about a personal income tax has a July 1–June 30 fiscal year. However, the tax year is January 1–December 31. On what basis should the information be presented?

A—The revenue capacity information should cover the most recent 10 tax years (calendar years). Consequently, most of the government’s statistical section schedules would, for example, cover the fiscal years 19X8–20Y7 period, but its revenue capacity schedules would span the calendar years 19X7–20Y6 period. Footnoting the tax year on the schedule would be helpful to the user.

[GASBIG 2015-1, Q9.14.1]

- .709-13 Q—A government presenting revenue capacity information about a personal income tax has a January 1–December 31 fiscal year. Relevant information needed for the revenue capacity schedules is not finalized until after the government’s comprehensive annual financial report is issued. What years should the schedules include?

A—With the possible exception of revenue capacity schedules for a property tax, statistical section schedules should cover the 10-year period ending with the current fiscal year reported in the basic financial statements. As described in Question .709-12 in this section, even when there are differences between tax years and fiscal years, a government should report the tax years that are related to the fiscal years presented in the other schedules.

If reasonable estimates of the pertinent information for the most recent year can be made in time to be included in the schedule, a government should do so, while properly noting that the information is not yet finalized and also describing, if appropriate, the sources of the information and methodologies for deriving it. The estimated information would be updated in subsequent years’ schedules. If estimates cannot be made, the information

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should be reported as “not available” and a note provided to explain why it is absent.

The information about principal payers should be presented for the most recent year that final or reasonably estimable amounts are available. The comparison year may be the first year of the 10-year trend covered in the other schedules, or the period 9 years prior (even though the resulting 10-year trend would cover a different period). (For an example, see Exhibit C-6 in nonauthoritative paragraph .902 of this section.) The government could include a footnote that describes this difference.

[GASBIG 2015-1, Q9.14.2]

.709-14 Q—How should a government report revenue capacity information if its most significant own-source revenue is investment income?

A—Investment income does not naturally possess the revenue rate and base characteristics of most other own-source revenues. Governments do not apply a particular rate (or rates) to an existing base. Nevertheless, a government can apply its professional judgment to develop schedules that would provide analogous information based on the objectives set forth in paragraph .105b of this section. For instance, revenue base information could take the form of a schedule of fair values by type of investment for the past 10 fiscal years. Revenue rate information could be rates of return by type of investment for the past 10 years. For principal payer information, a government could present investment income by type of investment for the current year and nine years ago.

[GASBIG 2015-1, Q9.14.3]

.710 Information about the Revenue Base

.710-1 Q—Should assessed property values be presented net of tax-exempt property, or should gross assessed value be presented and the assessed value of exempt property shown in a separate column that is subtracted to obtain a total?

A—Either approach is acceptable. Although governments are required to present the estimated actual value of taxable property, they are not required to present the assessed value of only taxable property. Subtracting tax-exempt property from assessed values, however, may make it easier for users to understand the relationship between the assessed and market values of property. (See Exhibit A-8 in nonauthoritative paragraph .902 of

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this section.) If tax-exempt property is not subtracted from assessed values, a note to the schedule could state that the values include such property.

[GASBIG 2015-1, Q9.15.1]

.710-2 Q—A city applies property tax rates on “taxable property value” (which is derived from assessed value), rather than on assessed value. If a government’s property tax rates are applied to a base other than assessed value, what property values should it present in its revenue base schedule?

A—The government should apply the revenue base information requirements of this section to the revenue base the property tax rates are actually applied to; in the scenario described, taxable property value would be presented, and the government would clearly note why this information is presented instead of assessed value and how it relates to assessed value. The government might consider presenting the assessed value as well.

[GASBIG 2015-1, Q9.15.2]

.710-3 Q—The total direct rate is presented in the schedule of revenue rates. Does it have to be presented in the revenue base schedule as well?

A—Yes. The total direct rate is required to be presented in both schedules to help the user crosswalk them. This can be especially important in cases where the period *in which* taxes are levied or are payable differs from the period *for which* the taxes were levied. (See, for example, the scenario described in Question .713-4 in this section.)

[GASBIG 2015-1, Q9.15.3]

.710-4 Q—Are governments required to present a ratio of assessed-value-to-estimated-actual-value-of-taxable-property?

A—No. Governments may include such a ratio if they believe it helps to meet the objectives of revenue base information and revenue capacity information in general. (For an example, see Exhibit I-8 in nonauthoritative paragraph .902 of this section.) If a government presents this ratio, it should indicate whether it is calculated as *taxable*-assessed-value or *total*-assessed-value-to-estimated-actual-value-of-taxable-property.

[GASBIG 2015-1, Q9.15.4]

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.711 Information about Revenue Rates

.711-1 Q—State and regional governments are not required to present the revenue rates of overlapping governments (although regional governments are encouraged to do so). Do they have to present a revenue rate schedule?

A—Yes. Even if a government is not required to report the rates of overlapping governments, it should report each individual direct rate it levies or charges for its most significant own-source revenue, as required by paragraph .115 of this section.

[GASBIG 2015-1, Q9.16.1]

.711-2 Q—According to paragraph .117 of this section, governments are not required to present overlapping state government revenue rates. Should governments present rates imposed or charged by local, county, or regional public authorities *created by* the state government?

A—Yes. The fact that a public entity was created by a state government is not a factor in this presentation. The basic concept of overlapping governments relates to geographic area. The term *state governments* is meant to convey “state-level” or “state-wide” governmental entities. The revenue rates of *state-wide* public authorities would not be included as overlapping rates in a local, county, or regional government’s statistical section. Public authorities that are regional, county-wide, or local *would be included*.

Likewise, state-wide and regional public authorities are not required to present the rates of overlapping governments, but county-wide and local authorities *should* present them.

[GASBIG 2015-1, Q9.16.2]

.711-3 Q—If a government has multiple property tax levies for a variety of purposes, should the individual direct rates for each levy be shown in the revenue rate schedule?

A—Yes. As required by paragraph .115 of this section, the tax rate for each levy should be shown as a separate direct rate, then aggregated to present the total direct rate.

[GASBIG 2015-1, Q9.17.1]

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.711-4 Q—If different tax rates are applied to different types of property, such as residential versus commercial, should the individual direct rates be shown in the revenue rateschedule?

A—Paragraph .115 of this section requires presentation of each individual direct rate applied by the reporting government to the revenue base. In general, this requires that each of the different rates applied to the different types of property should be shown for each of the last 10 years. Such differential rates for a particular levy should be labeled in a manner that distinguishes them from individual direct rates applied through separate levies. For example, the column headings for a government with three separate property tax levies, one of which applies differential rates, might look like the following:

General Levy			Library Levy	Parks Levy
Residential	Commercial	Utility		

[GASBIG 2015-1, Q9.17.2]

.711-5 Q—If an overlapping government has a complex rate structure, what should the government preparing the statistical section report as the overlapping government’s rate?

A—A government should present overlapping rates that are consistent with those the government reports as its own direct rates; in other words, the overlapping rates generally would be the total direct rates of the overlapping governments. A government should clearly note any inconsistencies between its direct rates and the rates of its overlapping governments (for instance, if the government preparing the statistical section presents a total direct rate, but the rate for an overlapping government is its effective rate or one of several individual rates it imposes).

[GASBIG 2015-1, Q9.18.2]

.711-6 Q—How should the total direct rate be calculated?

A—The total direct rate is the weighted average of all individual direct rates applied by a government to a particular revenue base. If all of a government’s direct rates apply to the same proportion of the revenue base, the rates may simply be summed.

However, governments with rates that apply to only a portion of the revenue base, or that set differential rates for different types of property or transactions or customers, will need to employ a formula for calculating a weighted

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average that multiplies each rate by the proportion of the revenue base to which it applies. (An example calculation of the total direct rate appears in nonauthoritative paragraph .904 of this section.)

If a government has a complex rate structure that would make such a calculation extremely difficult (or impossible if the revenue base cannot be sufficiently disaggregated for each applicable rate), then the government may substitute an effective tax rate instead. (See Question .712-1 in this section.) The effective tax rate should be clearly labeled and presented in both the revenue base and revenue rate schedules; governments could present a note explaining why effective tax rates are presented rather than total direct rates.

[GASBIG 2015-1, Q9.19.1]

.711-7 Q—The jurisdiction of a governmental entity is located entirely within the borders of one or more other governmental entities. Is the smaller governmental entity required to include the revenue rates of the larger governmental entities within which it is located? Are the larger governmental entities required to include underlying jurisdictions located entirely within their borders?

A—According to paragraph .117 of this section, “overlapping governments are those whose geographic area coincides at least in part with the geographic area of the reporting government.” By this definition, a government would report not only those governments with which it overlaps partially, but also those governments within which it is entirely encompassed, those that are located entirely within its borders, and those with identical geographic boundaries.

There are, however, two exceptions to this provision. State governments and regional governments are not required to report the rates of overlapping governments, although regional governments are encouraged to do so. Governments below the state level are not required to include rates set by a state government as overlapping rates. (For example, note that the illustrative local government in Exhibit A-13 in nonauthoritative paragraph .902 of this section includes the sales tax rates of the county within which it resides, but not the rates imposed by its state. Likewise, the illustrative state government in Exhibit C-5 in nonauthoritative paragraph .902 does not present a schedule with the sales tax rates imposed by regional, county, or local governments; it presents only its own direct rate.)

[GASBIG 2015-1, Q9.20.1]

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.711-8 Q—May a government voluntarily include rates imposed by its state government as overlapping rates?

A—Paragraph .117 of this section states that governments are not required to include overlapping state government rates, but they are not prohibited from doing so if they believe the information is meaningful. For instance, it might be valuable to the users of the financial report if a government reporting revenue capacity information for a sales tax included the sales tax rate imposed by the state government; the state rate is often as large as or larger than the rate imposed by the reporting government.

[GASBIG 2015-1, Q9.20.2]

.711-9 Q—A government reporting revenue capacity information about a particular tax (a) has a component unit that also levies the same type of tax or (b) participates in a joint venture that levies the same type of tax. Should the tax rates of the government's component unit or joint venture be shown as direct rates or overlapping rates?

A—If the government has the ability to set, modify, or approve the revenue rates of the component unit or joint venture, the rates should be reported by the government as direct rates. All other rates set by the component unit or joint venture would be considered overlapping rates.

[GASBIG 2015-1, Q9.20.3]

.711-10 Q—A government has overlapping governments with several different fiscal years—some ending June 30, some September 30, and others December 31. How should the government determine which year's rates to include for each government?

A—For a given fiscal year in a revenue rate schedule, the government preparing the schedule should include the tax rates for overlapping governments' taxes that were *payable* in that fiscal year, regardless of the overlapping governments' fiscal years or levy periods. In this way, the information in the schedule is similar to what taxpayers would see for the multiple governments listed in their tax bill.

[GASBIG 2015-1, Q9.21.1]

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.712 Information about Principal Revenue Payers

.712-1 Q—How can a government with a highly complicated rate structure—such as a personal income tax with different rates for multiple income brackets, marital filing status, and residency—meet the requirement to present each individual direct rate applied to the base of the own-source revenue?

A—If the rates set by a government vary along more than two dimensions, it may not be practical to present all of them. Presenting the rate structure for a single year would be complex, let alone for the past 10 years. Several options are available to governments in such a circumstance:

- The rate information could be presented in more than one schedule. For the income tax described in the question, one schedule might present the rates organized by income brackets and filing status, and a separate schedule might present information about how those rates vary depending on whether the filer is a resident or not.
- If the impact that a particular characteristic has on rates is uniform across all other characteristics, it could be described in a note. See, for instance, the tax rate information presented in Exhibit C-8 in nonauthoritative paragraph .902 of this section for an illustrative state government. The illustrative government presents the rates for each income bracket that apply to single filers and married filers filing separately. Note c in that exhibit indicates that the rate structure for all other filing statuses can be obtained by doubling the income brackets.
- If neither of these options is practical, a government should use its professional judgment to select a portion of its rate structure to present, preferably focusing on the characteristics with the most significant impact on determining the rates applied.

A useful complement to the presentation of complex rate structures, especially if a government presents only a portion of its rate structure, is information about effective rates. The effective rate is an average rate that is calculated by dividing either total revenue or total collections for a given period by the total revenue base for the period. The illustrative state government presents effective rates for its personal income tax in both the revenue base and revenue rate schedules. (It should be noted that, if a government calculates an effective rate for a property tax, the denominator should be the estimated actual taxable value rather than assessed value.)

[GASBIG 2015-1, Q9.18.1]

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.712-2 Q—How many payers should a government include in the schedule of principal revenue payers?

A—The basic requirement of paragraph .118 of this section is to present the 10 largest payers of a government's most significant own-source revenue. However, if fewer than 10 payers account for 50 percent or more of the total revenue base (or total taxes levied or charges imposed), a government may present fewer than 10 payers. A government may also include more than 10 payers if it believes doing so would be meaningful and would help to meet the objectives set forth in paragraph .105 of this section.

[GASBIG 2015-1, Q9.22.1]

.712-3 Q—If all of a governmental entity's revenue payers pay essentially the same amount—such as students of a public college or university—should the government present the principal revenue payers schedule?

A—No. In such a case, the entity has no "principal" payers. However, it could present other information that describes important characteristics of its payers that affect how much they pay, such as resident-versus-nonresident college students.

[GASBIG 2015-1, Q9.22.2]

.712-4 Q—If a government is prohibited from identifying the individual payers or remitters of an own-source revenue it is reporting in its statistical section, how can it fulfill the requirement to present information about principal revenue payers?

A—The identification of the payer (or remitter) can be useful information because it helps a user to judge the potential that the payer (remitter) may leave the jurisdiction. If legally permissible, reporting identities of the largest payers (remitters) without their remittance obligations might still assist this aim. However, when considering what alternative information to provide, governments should be mindful that the central objective of this information is to provide insights into the degree to which a government is or is not reliant upon a small number of significant payers (remitters).

The amount paid or the portion of the revenue base accounted for by each of the principal payers (remitters) and their percentages of the total are the key pieces of information for assessing a government's reliance on a small number of payers (remitters). If allowed, a government might report those key pieces of information for the largest payers (remitters) without specifically identifying who they are.

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If the key pieces of information cannot legally be presented, then a government should consider what other information would convey to the user a sense of the degree of concentration in an own-source revenue among particular kinds of payers (remitters). (See Exhibit C-9 in nonauthoritative paragraph .902 of this section for an example of a schedule that shows the number of income tax filers and their aggregate tax liability by income level.)

[GASBIG 2015-1, Q9.22.3]

.713 Information about Property Tax Levies and Collections

.713-1 Q—A government has a sales tax and a property tax that provide roughly the same amount of revenue, and it has decided to report revenue capacity information for both taxes. Does it have to present a schedule of property tax levies and collections, even though the sales tax is its largest (and therefore most significant) own-source revenue?

A—Governments are required to present revenue capacity information for only their largest own-source revenue. Although presenting information for a second revenue is optional, governments are expected to present the full complement of schedules for each revenue, including the levies and collections information for a property tax. By deciding to present information about the second own-source revenue, a government has acknowledged that it is significant and therefore important to the users of its financial report. The users will expect to see a levies and collections schedule when revenue capacity information is presented for a property tax.

[GASBIG 2015-1, Q9.23.2]

.713-2 Q—It is common practice for some governments to adjust a particular year's property tax levy in subsequent years, sometimes significantly. How should such adjustments be dealt with in the schedule of property tax levies and collections?

A—Subsequent adjustments to a levy can be shown in a separate column next to the column presenting the amounts levied for each period. The latter column would be referred to as the “original amount levied” or “original tax levy.” If this approach is used, a “total adjusted levy” column should be added that sums the original levy and the subsequent adjustments. (For an example, see Exhibit B-8 in nonauthoritative paragraph .902 of this section.)

The percentage of the levy collected within the period of the levy should continue to be calculated as (amount collected within the period of the levy ÷ original amount levied for the period). However, the total collections

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percentage would be calculated as (total collections to date ÷ total adjusted levy), rather than as a percentage of the original levy.
[GASBIG 2015-1, Q9.23.3]

.713-3 Q—Should the property tax collections information agree with the property tax revenues or inflows of short-term financial resources amounts reported in the basic financial statements?

A—This schedule presents information about actual *collections*, which typically are not the same as the amount that a government recognizes in its financial statements as revenues. ~~Under inflows of short-term financial resources. In both financial statements presented applying the economic resources measurement focus and accrual and modified basis of accounting and financial statements presented applying the short-term financial resources measurement focus and accrual basis of accounting,~~ in any given year revenues/inflows of short-term financial resources may include amounts levied but not yet collected; ~~under modified accrual, revenue may include amounts levied for prior years but collected in the current year.~~ This information is intended to help a user understand a government's ability to collect the amounts it levies within a particular period, rather than provide a detailed breakdown of the revenues/inflows of short-term financial resources recognized in a given year.
[GASBIG 2015-1, Q9.23.4, as amended by GASBS XX ¶12, ~~fn10, and ¶22, and fn10~~]

.713-4 Q—Paragraph .120a of this section requires that the schedule of property tax levies and collections include “the amount levied for that period.” Paragraph .120b of this section requires that the schedule include “the amount collected prior to the end of that period.” Do these two requirements refer to the same period?

A—Not in all cases. Paragraph .120a refers to the period for which the taxes are levied, which generally is the fiscal year when the revenues are to be used. According to footnote 7 of this section, however, paragraph .120b refers to “the period for collecting and distributing taxes that ends when the collector makes final scheduled distribution of the current year's taxes and begins the levy and collection process for the next year's taxes.” The period for collecting and distributing taxes may differ from the period for which the taxes are levied. The amount governments should present for collections on the levy should be the amount collected prior to the final scheduled distribution of the current year's taxes.

For example, if a government has a January 1–December 31 fiscal year, the property taxes for each fiscal year actually are levied during the prior calendar year. Thus, the property tax revenues for its fiscal year ending December 31, 20X5, were levied during 20X4 and were payable by February 20X5. In this scenario, the most recent period for which property taxes were levied is fiscal year 20X5. Therefore, the revenue capacity schedules would cover fiscal years 19Y6–20X5. The rates imposed to produce the property tax revenues in fiscal year 20X5 would be labeled “fiscal year 20X5” even though they were levied in calendar year 20X4.

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The property values would be presented as calendar years or tax years 19Y5–20X4; however, the presentation of the total direct rates in the same schedule will enable the user to crosswalk the schedules and thereby connect the calendar-year (tax-year) property values with the fiscal year 20X5 information in the other revenue capacity schedules.

[GASBIG 2015-1, Q9.23.5]

.714 Debt Capacity Information

.714-1 Q—Should the debt capacity schedules include long-term obligations such as compensated absences, net pension liabilities, landfill postclosure care costs, or claims and judgments?

A—No. For the purposes of the statistical section, debt is limited to long-term debt instruments, including (but not limited to) bonds, notes, certificates of participation, loans, and leases. However, a government may present information about other long-term obligations in a separate schedule if it believes the information will be useful to the users of its financial report and will help to achieve the objectives set forth in paragraph .105 of this section. (See Exhibit C-12 in nonauthoritative paragraph .901 of this section for an example.)

[GASBIG 2015-1, Q9.24.1, as amended by GASBS 87, ¶20 and GASBIG 2016-1, Q5.35]

.714-2 Q—Paragraph .122 of this section requires that outstanding debt be divided between debt “related to” governmental and business-type activities. Paragraph .126 of this section requires the reporting of debt “attributable to” governmental activities of overlapping governments. Do these terms imply a specific method for determining whether debt should be reported as governmental activities debt or business-type activities debt in the statistical section?

A—No. If debt is reported with the governmental activities in the financial statements and notes to the financial statements, it should be reported with the governmental activities in the statistical section. Likewise, if debt is reported with the business-type activities in the financial statements and notes to the financial statements, it should be reported with the business-type activities in the statistical section.

[GASBIG 2015-1, Q9.24.2]

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.714-3 Q—Is a government engaged only in fiduciary activities, such as a pension or other postemployment benefit plan, required to present any of the debt capacity schedules?

A—Yes, if it has outstanding debt that meets the definition of direct debt in paragraph .503 of this section.

[GASBIG 2015-1, Q9.24.3]

.714-4 Q—Advance-refunded debt normally is considered defeased in substance but technically is still outstanding because it has not yet been repaid. Should defeased debt be included in the debt capacity schedules?

A—No. Defeased debt no longer is reported as a liability in the financial statements and therefore should not be included in the debt capacity schedules beginning with the year in which the defeasance occurs. However, amounts of that debt outstanding in prior years should continue to be reported in those schedules.

[GASBIG 2015-1, Q9.24.4, as amended by GASBIG 2018-1, Q4.3 and Q5.7]

.714-5 Q—If a government retired the remaining outstanding debt of a particular type, such as tax-backed debt or special assessment debt, should it continue to report that type of debt in the relevant debt capacity schedules in the statistical section?

A—Yes. A government should report all types of debt that were outstanding during the 10-year period covered by the statistical section, even if that type of debt is no longer outstanding as of the date of the financial statements.

[GASBIG 2018-1, Q4.3]

.714-6 Q—Do governments have the option to present debt limitation information and overlapping debt information in the notes to the financial statements?

A—Governments may present the calculation of the current-year debt limit or the calculation of overlapping debt in the notes, although the debt limit information that governments are required to report for the past 10 years still should be presented in the statistical section. As long as the presentation of this information in the notes follows the requirements of paragraphs .126–.128 of this section, governments are not required to repeat the information in the statistical section (although they should make reference in the statistical section as to where the user may find the information).

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However, if a government's presentation in the notes does not follow the requirements of paragraphs .126–.128, it should present the required information in the statistical section.

[GASBIG 2015-1, Q9.24.5]

.714-7 Q—Should outstanding debt and general bonded debt be presented in the schedules as gross principal outstanding or net of discounts, premiums, and other adjustments? In particular, what amount should be shown for deep-discount debt?

A—The amounts presented in the debt capacity schedules should agree with those in the basic financial statements. In other words, the amounts should include discounts, premiums, and other adjustments. Similarly, amounts shown for deep-discount debt should agree with the accreted amounts reported in the basic financial statements.

[GASBIG 2015-1, Q9.24.6]

.715 Information about Ratios of Outstanding Debt

.715-1 Q—If a government has only general bonded debt outstanding, is it required to present separate schedules of outstanding debt and general bonded debt?

A—No. A single schedule containing the ratios of debt-to-personal-income, debt-to-estimated-actual-value-of-taxable-property, and debt-to-population (or similar measure) will meet both requirements. (See Exhibit B-9 in nonauthoritative paragraph .902 of this section.)

[GASBIG 2015-1, Q9.25.1]

.715-2 Q—If a government has few types of outstanding debt, may it combine the schedules of outstanding debt and general bonded debt?

A—Yes, as long as all of the required information is presented, with general bonded debt distinguished from other debt and debt related to governmental activities presented separately from debt related to business-type activities. An example of a combined schedule can be found in Exhibit A-25 in nonauthoritative paragraph .902 of this section.

[GASBIG 2015-1, Q9.25.2]

.715-3 Q—Should each of a government's individual debt issues be presented in its own column?

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A—A government with few outstanding debt issues conceivably could present each in its own column without the schedule becoming difficult to use. The minimum requirement for both schedules of outstanding debt ratios, however, is to aggregate individual debt issues by type.

[GASBIG 2015-1, Q9.25.3]

.715-4 Q—Personal income and population information may not be available for the most recent years at the time a statistical section is published. Should the ratios be left blank for those years?

A—There are options for providing ratios in the years for which personal income or population are not available:

- Although *final* personal income information may not be available for several years, the U.S. Bureau of Economic Analysis does publish tentative data that subsequently are revised. The ratios could be calculated with tentative personal income data and be recalculated in subsequent years as the personal income information is refined, as long as the government properly notes on the schedule that tentative personal income information was used.
- A government could use the personal income or population amount from the most recent year available for the years for which personal income or population is not available, as long as it notes that it did so. However, it should be cautioned that the personal income ratios likely will overstate the debt burden because personal income amounts tend to grow each year.
- A government could obtain estimated personal income or population information from another source. The source of the information should be identified on the schedule.
- A government could produce its own estimates of personal income or population based on the trend in prior years. The ratios calculated from estimated data should be noted and the methodology described on the schedule.

[GASBIG 2015-1, Q9.26.2]

.715-5 Q—Should a governmental entity that is financed primarily with nontax revenues use resident population to calculate the per capita debt ratios in the schedules of outstanding debt and general bonded debt?

A—Population is the standard data identified in paragraphs .123 and .124 of this section for calculating per capita ratios. For some governmental entities, especially those financed through user charges rather than from revenues provided by the general public, it may be more meaningful to divide

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outstanding debt by a measure of their customer or client base, such as customers for a utility or students for a public university.

[GASBIG 2015-1, Q9.27.1]

.715-6 Q—Paragraph .123 of this section suggests that a utility might calculate per capita debt ratios by using the number of customers, rather than resident population, in the denominator, if doing so would be more meaningful. If a water utility has one very large customer that, for example, accounts for half of its water usage, a per capita ratio using number of customers might be distorted. How should this government calculate debt per customer?

A—In this case, the ratio might be more meaningful if it were accompanied by another ratio that includes only the smaller customers. This could be accomplished by comparing the number of customers (minus the large customer) with a portion of the outstanding debt that is proportionate to the share of total revenue, using the following formula:

$$[(\text{water charge revenue from other customers} \div \text{total water charge revenue}) \times \text{outstanding debt}] \div \text{number of other customers}$$

If this approach is used, the government would need to properly footnote the exclusion of the large customer from the calculation and describe its method of calculation.

[GASBIG 2015-1, Q9.27.2]

.716 Information about Ratios of General Bonded Debt

.716-1 Q—If general obligation bonds are issued to finance enterprise fund capital assets, are accounted for in enterprise funds, and are actually being repaid with enterprise fund revenues, should these bonds be included in the schedule of ratios of general bonded debt?

A—Yes. All general obligation bonds should be included in the schedule of general bonded debt, regardless of the purpose for which they are used, the fund in which they are reported, or the revenues being used to repay them, because general obligation debt communicates an ultimate recourse to the general resources of a government. General bonded debt also should include other bonded debt that is (or ultimately could be) payable with general governmental resources. Typically, general bonded debt, including general obligation bonds, is reported with the governmental activities debt in the schedule of ratios of outstanding debt; in this case, however, the bonds should be reported with the business-type activities debt.

[GASBIG 2015-1, Q9.25.4]

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.716-2 Q—Is it allowable to subtract amounts available in sinking funds to repay debt service from the outstanding debt amount before calculating the general bonded debt ratios?

A—Paragraph .124 of this section requires that resources restricted to repaying the *principal* of outstanding debt should be subtracted from outstanding debt before calculating the ratios of general bonded debt. (The meaning of *restricted* is defined in paragraph .157 of Section 1800.) No other deductions are allowed. (See Exhibit B-9 in nonauthoritative paragraph .902 of this section.)

[GASBIG 2015-1, Q9.28.2]

.716-3 Q—Should a governmental entity that does not levy a property tax calculate the ratio of outstanding debt divided by estimated actual value of taxable property?

A—If a government's general bonded debt is not expected to be repaid primarily with property taxes, the government may calculate the ratio using the relevant revenue base (for example, retail sales).

[GASBIG 2015-1, Q9.28.3]

.717 Information about Direct and Overlapping Debt

.717-1 Q—Should a government engaged only in business-type activities present a schedule of direct and overlapping debt?

A—No. This schedule is limited only to the governmental activities debt of the reporting government and its overlapping governments. By definition, governments engaged only in business-type activities have no governmental activities debt; therefore, this schedule is not applicable.

[GASBIG 2015-1, Q9.29.2]

.717-2 Q—If a government cannot obtain information about the revenue base from which the governmental activities debt of an overlapping government is repaid, how should the percentage of overlap be computed?

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A—Paragraph .127 of this section offers population and personal income as possible substitutes for determining the percentage of overlap between two governments. Property values and retail sales are other possible bases that a government might use.

[GASBIG 2015-1, Q9.29.3]

.718 Information about Debt Limitations

.718-1 Q—This section limits the deductions from the debt amounts used to calculate ratios of general bonded debt. (See Question .716-2 in this section.) Does this limitation also apply to the schedule of debt limitations?

A—No. The calculation of the debt limit should be based on the legal requirements under which a government operates. If the law stipulating how the debt limit is calculated allows for the deduction of amounts other than resources restricted to repaying principal, then the calculation in this schedule should show those deductions.

[GASBIG 2015-1, Q9.30.1]

.718-2 Q—This section requires that the full calculation of the legal debt margin be presented for the most recent year. May a government present the calculation for all 10 years of the schedule?

A—Yes, as long as doing so enhances the schedule's understandability or its usefulness and the schedule's focus remains on the key debt limit information—the limit, net debt applicable to the limit, the debt margin, and the ratio. (See Exhibit B-11 in nonauthoritative paragraph .902 of this section.)

[GASBIG 2015-1, Q9.30.2]

.718-3 Q—A government's ability to borrow is limited both by a provision in the constitution of the state in which it is located and by a more restrictive statutory limit imposed by the state. Which limitation should be reported in the schedule of debt limitation information?

A—The more restrictive statutory limitation should be the basis of the schedule, because it is the effective limit above which the government may not borrow. It also may be useful to the reader of the schedule to include a note in the schedule that describes the nature of the constitutional limit as well.

[GASBIG 2015-1, Q9.30.3]

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.719 Information about Pledged-Revenue Coverage

.719-1 Q—May a government present pledged-revenue coverage information based on the formula required by its bond covenants?

A—Yes, if the formula and its components are clearly described. This section does not require governments to utilize the coverage formulas stipulated in their bond covenants because the purpose of this schedule is to help the user assess a government's ability to generate sufficient resources to repay debt, rather than to demonstrate legal compliance. Furthermore, because coverage formulas may vary from issue to issue, requiring the use of covenanted formulas potentially could interfere with a government's ability to aggregate debt being repaid from the same revenue stream, and may make the schedule so voluminous that its usefulness would be lessened.

[GASBIG 2015-1, Q9.31.1]

.720 Demographic and Economic Information

.720-1 Q—Is a government engaged only in fiduciary activities, such as a pension or OPEB plan, required to present any of the demographic and economic information schedules?

A—No. The required demographic and economic indicators (population, total personal income, per capita personal income, unemployment rate, and principal employers) generally would not be relevant for a fiduciary activity. Although there is no requirement to do so, such a government may present a schedule of demographic and economic information if it believes the information would be useful to its users and would help to achieve the objectives set forth in paragraph .105 of this section. Pension and OPEB plans also might present demographic information about the members they cover, as do the illustrative retirement systems in Exhibit H-4 in nonauthoritative paragraph .902.

[GASBIG 2015-1, Q9.32.1, as amended by GASBIG 2016-1, ¶13]

.720-2 Q—Governmental entities sometimes cover a geographic area for which no demographic and economic information is available. For instance, a school district may cover all or a portion of the area of multiple local governments; furthermore, the school district covers only a portion of the county within which it resides. For what jurisdiction should it provide demographic and economic information?

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A—Paragraph .132 of this section states that a government should present “the data that are the most specific to that particular government.” There are several options for reporting on jurisdictions for which information cannot be obtained. (The order in which these options are presented should not be interpreted to indicate a preference.)

- If the government covers a substantial portion of the geographic area of the county it resides in, it might choose to present information for the county. This should be done, however, only if the government believes the county information and its trend over the 10-year period are representative of the conditions and experience of the government’s jurisdiction. The information should be clearly labeled as pertaining to the county, rather than the government itself.
- The government could present information for the individual governments with which it substantially overlaps. The information should be clearly labeled as pertaining to these other jurisdictions, rather than the government itself. If the government chooses to aggregate the information for the overlapping governments to produce single indicators for the government, the schedule should note this fact and describe how the aggregation was accomplished.
- The government could estimate information for its jurisdiction based on the information for other jurisdictions. This information should be clearly labeled as estimated and the estimation methodology should be described in a note to the schedule.

[GASBIG 2015-1, Q9.32.2]

.721 Information about Demographic and Economic Indicators

.721-1 Q—If the four required demographic and economic indicators—population, personal income, per capita personal income, and unemployment rate—cannot be obtained for a particular jurisdiction, what information should be reported?

A—Information that is not available for some or all of the 10 years should be noted as unavailable, rather than merely omitted. There are options, though, for replacing missing information:

- Information can be obtained from another source. The decennial U.S. Census is not the only source of population information. Other agencies, such as state or county budget or finance offices or departments of planning or economic development, may produce estimates of annual population change between the censuses. The Census Bureau also publishes annual population information for larger governments. Some research groups, not-for-profit organizations (for example, the chamber of

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commerce), and private companies also may produce estimates of common demographic and economic indicators. The sources of the information presented should be identified on the schedule.

- Information can be presented for another, close jurisdiction. (See the answer to Question .720-2 in this section about presenting information about other jurisdictions.)
- Information can be estimated; estimation methodologies should be described on the schedule.

If the required information is entirely unavailable for the 10-year period, governments may present other information that describes the demographics and economy of their jurisdictions.

[GASBIG 2015-1, Q9.33.1]

.721-2 Q—May a government present other demographic and economic indicators in addition to those required by paragraph .131 of this section?

A—Yes. The presentation of the four indicators is a *minimum* requirement. Any other demographic or economic information that would assist the user in understanding the government’s socioeconomic environment or would facilitate comparisons over time and among governments also may be presented.

[GASBIG 2015-1, Q9.33.2]

.721-3 Q—Paragraph .132 of this section requires presentation of the “most current data” for the demographic and economic indicators. Does this mean that information for a more recent period should be presented if it becomes available prior to publication of the comprehensive annual financial report? For example, if information for calendar year 20X8 becomes available before the financial report for fiscal year 20X7 is issued, should the 20X8 information be presented?

A—No. This requirement speaks to the “freshness” of the information presented, not which periods should be presented. The schedule should cover essentially the same 10-year period as the other statistical section schedules. The demographic and economic indicators should be those most recently available for the years covered.

[GASBIG 2015-1, Q9.33.3]

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.722 Information about Principal Employers

See also Question .726-1 in this section for additional discussion about the presentation of statistical section information about principal employers.

.722-1 Q—How many employers should a government include in the schedule of principal employers?

A—The basic requirement of paragraph .133 of this section is to present the 10 largest employers in a government's geographic area. However, if fewer than 10 employers account for 50 percent or more of total employment, a government may present fewer than 10 employers. A government also may include more than 10 employers if it believes doing so would be meaningful and would help to meet the objectives set forth in paragraph .105 of this section.

[GASBIG 2015-1, Q9.34.1]

.722-2 Q—Are governments supposed to present information about the largest *private-sector* employers only, or should public-sector employers be included as well?

A—The schedule should include all employers—public and private, for-profit, not-for-profit, and government.

[GASBIG 2015-1, Q9.34.2]

.722-3 Q—For the purpose of determining whether a governmental entity is one of the largest employers, should its component units be included or treated separately? For instance, a county preparing this schedule encompasses a large city government with a school district that is a discretely presented component unit. Should the county include the school district employees in the total employees for the city government?

A—Components units are legally separate from the primary government and therefore their employees should not be included with those of the primary government. Rather, component units should be listed as separate entries if they are large enough to qualify as principal employers.

[GASBIG 2015-1, Q9.34.3]

.722-4 Q—If federal privacy requirements prevent a government from obtaining information about the largest employers in its jurisdiction from a state department of labor or similar agency, what information should the government present?

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A—Governments have at least two options for meeting the objectives of principal employers information in this scenario. Governments may be able to obtain other information from the state department that still will help a user to understand the degree to which a government's economy is or is not dependent on a small number of businesses:

- The names of the largest employers without the specific employment numbers, but with general ranges (for instance, 5,000 or more, 2,500–4,999, 1,000–2,499, and so on). (See Exhibit C-14 in nonauthoritative paragraph .902 of this section, for example.)
- The employment numbers of the largest employers without identifying labels. This would provide measures of concentration of employment within the largest employers, but the value of being able to assess the likelihood that the specific employers will continue to operate in the jurisdiction and at the same level would be lost.

Governments also may be able to obtain principal employer information from other organizations (see Question .721-1 in this section) or to collect the information themselves. Ultimately, if principal employer information cannot be obtained, a government should consider what other information could be provided that would help the user to understand the degree of concentration in the jurisdiction's employment base. One possible type of information might be total employment organized by type of employer (for example, government, military, retail, manufacturing, finance, and so on).

[GASBIG 2015-1, Q9.34.4]

.722-5 Q—Are public colleges and universities required to present a schedule of principal employers?

A—Yes. All governments preparing a statistical section, with the exception of governments engaged only in fiduciary activities, are required to include a schedule of principal employers. Public colleges and universities should report the principal employers for the geographic area that is most relevant. For instance, a community college would report the largest employers in the locality, county, or region with which it is associated. A state-wide college or university likely would report the largest employers in its state, unless a smaller geographic area is more relevant.

[GASBIG 2015-1, Q9.34.5]

.723 Operating Information

.723-1 Q—If a government has information about government employees, operating indicators, or capital assets, but the information cannot be organized

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by the functional, programmatic, or identifiable activity expense categories required by paragraphs .135–.137 of this section, may a government organize the information differently?

A—Yes. Governments also may organize the information differently if it will result in a more meaningful presentation than can be accomplished by using functional, programmatic, or identifiable activity categories. For example, functions may span several departments or agencies, or an agency might contain all or part of several functions, but a government may track the number of its employees only by the department or agency they work for, not the function they are related to.

[GASBIG 2015-1, Q9.35.1]

.724 Information about Government Employees

.724-1 Q—How should the number of government employees be measured? For instance, should a government use total headcount or full-time-equivalent employment? Should part-time employees be distinguished from full-time?

A—Many governments report full-time-equivalent employment because it compensates for variations from government to government in their mix of full-time, part-time, and seasonal employees. However, this section does not specify how to measure the number of employees. Governments should use professional judgment to select a measure that best suits the needs of the users of their financial reports. Governments also should use a consistent measure from year to year and should clearly describe what type of information they are presenting and note any methods or assumptions used to derive the information.

[GASBIG 2015-1, Q9.36.1]

.724-2 Q—Should the government employees information be an average for the fiscal year, or should it reflect a particular point in time? If the latter, should the point be the last day of the fiscal year or another date?

A—This section does not specify the point at which the number of employees should be measured. Governments should use professional judgment to select a measure that best suits the needs of the user of their financial reports and should note the nature of that measure (in other words, fiscal-year average, as of fiscal year-end, and so on). Governments should use a consistent measure from year to year.

[GASBIG 2015-1, Q9.36.2]

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.725 Information about Operating Indicators and Capital Assets

.725-1 Q—To meet the operating indicators and capital assets requirements of this section, is a government required to begin collecting information about the demand for services or the level of service provided, or about the volume, usage, or nature of capital assets?

A—No. Paragraphs .136 and .137 of this section require governments to present *available* measures; a government need not begin measuring demand, service level, or capital asset usage for the sole purpose of fulfilling the requirements of this section. For many governments, such measures are readily available from departments and agencies, because these units use them to manage the provision of services and the operation of the government and to maintain and operate its infrastructure and other capital assets.

[GASBIG 2015-1, Q9.37.1]

.725-2 Q—How many operating and capital asset indicators should be presented for each function, program, or identifiable activity?

A—No specific number of indicators is required. A single indicator may be sufficient to convey to the reader the nature of the function or program, the types of activities it involves, the amount of activity conducted, and the capital assets available to support them. For broader functions, programs, or identifiable activities, two or more operating or capital asset indicators may be needed to convey that information.

[GASBIG 2015-1, Q9.37.2]

.725-3 Q—Are there particular operating or capital asset indicators that a government should present, such as number of arrests for the police function or lane-miles of roads for the transportation or public works function?

A—Although there are some indicators, such as the number of arrests for the police function or lane-miles of roads for the transportation or public works function, that are commonly used by governments and presented in their statistical sections, this section does not specify what indicators should be reported. That decision is a matter of professional judgment.

[GASBIG 2015-1, Q9.37.3]

.725-4 Q—What indicators, if any, should be presented for the general government function that many governments use to aggregate administrative and overhead functions?

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A—Examples of indicators reported by governments for the general government function include operating indicators such as number of permits issued for various purposes, number of applications processed, number of inspections performed, number of properties assessed, and investment portfolio return; and capital asset information such as number of buildings and structures of various types, square feet of administrative office space, and number of cars in the central pool. However, this section does not identify specific required indicators. Ultimately, the selection of the information to present is a matter of professional judgment and depends on the specific activities aggregated within the function and on the proportion of the total function that each activity represents, which vary from government to government.

[GASBIG 2015-1, Q9.37.4]

- .725-5 Q—Are school districts required to present a schedule of information about individual school and administrative buildings?

A—This section does not specify the particular information that school districts or any other type of governmental entity should present about the volume, usage, or nature of its capital assets. However, this type of schedule (see Exhibit D-21 in nonauthoritative paragraph .902 of this section) commonly has been presented by school districts for many years and is valued by financial report users. In addition to this schedule, or in lieu of it, a school district may choose to report information about school buildings and administrative facilities in the aggregate, as well as information about other capital assets, such as school buses, athletic facilities, and equipment. (See Exhibit D-22 in nonauthoritative paragraph .902 of this section, for example.)

[GASBIG 2015-1, Q9.37.5]

- .725-6 Q—Are public colleges and universities required to present the operating indicators such as freshman admissions and degrees earned?

A—This section does not specify the particular operating indicators that public colleges and universities or any other type of governmental entity should present. However, the information shown in Exhibit N-2 in nonauthoritative paragraph .903 of this section and Exhibits E-11 and E-12 in nonauthoritative paragraph .902 of this section commonly has been presented by public colleges and universities for many years and is valued by financial report users. Colleges and universities should use professional judgment to select

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the indicators that best help them to achieve the objectives of operating information and should clearly note any methods or assumptions used to derive the information.

[GASBIG 2015-1, Q9.37.6]

.726 Operating Information Reported by Pension and Other Postemployment Benefit Plans in Separately Issued Reports

.726-1 Q—For purposes of presenting supplementary information about principal participating employers as required by paragraph .138c of this section, should a primary government and its component units be listed as separate employers?

A—No. Information about principal participating employers in a pension or OPEB plan's statistical section should present a primary government and its component units as one employer, consistent with the requirement of paragraph .107 of Section Pe5, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit," or paragraph .108 of Section Po50, "Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Benefit."

[GASBIG 2015-1, Q5.112.1; GASBIG 2017-2, Q4.152]

.726-2 Q—Should the operating information required by paragraph .138 of this section be presented in the statistical sections of financial reports issued separately by pension and OPEB plans *in addition to or in lieu of* the information required by paragraphs .135–.137 of this section?

A—Paragraph 104 of the Basis for Conclusions of Statement No. 44, *Economic Condition Reporting: The Statistical Section*, explains that information about government employees, operating indicators, and capital assets was not considered to be particularly relevant to pension and OPEB plans. The Board requires *instead* that pension and OPEB plans present information about retired members by type of benefit, average benefit payments, and (if applicable) principal participating employers. However, if a pension or OPEB plan believes that presenting any of the information described in paragraphs .135–.137 would be meaningful to the user of its financial report, it is allowed (but not required) to do so as long it helps to achieve the objectives of operating information described in paragraph .105 of this section.

[GASBIG 2015-1, Q9.38.1]

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.726-3 Q—If a government has a pension or OPEB plan, is it required to present the information required for the separately issued reports of pension and OPEB plans in its statistical section?

A—That information is required only for the separately issued reports of pension and OPEB plans. However, a government may present the information if it believes it will help to meet the objectives set forth in paragraph .105 of this section, particularly if the plan does not prepare a statistical section.

[GASBIG 2015-1, Q9.38.2]

.726-4 Q—How many years should be covered by the schedules presented by pension and OPEB plans?

A—Unless otherwise specified in this section, all schedules should cover the most recent 10 years. If a plan previously presented information for fewer than 10 years, it is *encouraged, but not required* to retroactively report the full 10 years when it implements this section.

[GASBIG 2015-1, Q9.38.3]

.726-5 Q—How many participating employers should a multiple-employer pension or OPEB plan include in the schedule of principal participating employers?

A—The basic requirement of paragraph .138c of this section is to present the 10 largest participating employers. However, if fewer than 10 employers account for 50 percent or more of total covered employees, a plan may present fewer than 10 employers. A plan may include more than 10 participating employers if it believes doing so would be meaningful and would help to meet the objectives set forth in paragraph .105 of this section. Some plans list all of their participating employers.

[GASBIG 2015-1, Q9.38.4]

.726-6 Q—May a pension or OPEB plan present additional schedules not required by this section, such as trends in employer and employee contribution rates and characteristics of covered employees?

A—Yes, as long as the plan believes that the information will be beneficial to the user of its financial report and will help to meet the objectives set forth in paragraph .105 of this section.

[GASBIG 2015-1, Q9.38.5]

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.727 Additional Information

.727-1 Q—May a government use the statistical section to present certain information as part of its effort to meet continuing disclosure requirements related to outstanding bonds?

A—Yes. Paragraph .139 of this section allows governments to provide additional information not specifically required by this section, as long as the information helps to achieve the objectives of statistical section information described in paragraph .105 of this section. If the government believes continuing disclosures meet this threshold, then they may be included with the relevant category of statistical section information. Otherwise, the continuing disclosures should not be included within the statistical section but should be presented separately.

[GASBIG 2015-1, Q9.40.1]

.727-2 Q—The schedule of property value, construction, and bank deposits was required under previous standards but is no longer required. May a government continue to present this schedule after implementing this section?

A—Yes, if the government believes the information will help to meet the objectives set forth in paragraph .105 of this section. Although this information did not rate highly enough with users in the GASB's research to merit being required, it nonetheless was found to be valuable to some users.

[GASBIG 2015-1, Q9.41.1]

.727-3 Q—The schedule of special assessment collections is no longer required. May a government continue to present this schedule?

A—Special assessments levied to finance the repayment of long-term debt should now be presented in the schedule of pledged-revenue coverage. If a government wants to present information about the collection of special assessments levied to support operating costs, it may do so in a separate schedule if it helps to achieve the objectives set forth in paragraph .105 of this section.

[GASBIG 2015-1, Q9.41.2]

.727-4 Q—May a school district present certain information in its statistical section related to particular funds, such as trends in general fund ~~expenditures~~ outflows of short-term financial resources per student and indicators regarding its food services proprietary fund?

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A—Yes. As long as the information helps to achieve the objectives of statistical section information described in paragraph .105 of this section, it may be included with the relevant category of statistical section information.

[GASBIG 2015-1, Q9.41.3, as amended by GASB XX ¶23]

.727-5 Q—Can any of the required information be presented in a graphical format—such as a bar or pie chart—instead of in the tabular format?

A—No. Graphics can be a valuable complement to tabular information, highlighting important information and trends for the users of the financial report. However, the requirements of this section can be met only with the presentation of tabular information.

[GASBIG 2015-1, Q9.43.1]

.727-6 Q—May a government include percentage change or percentage distribution ratios in its schedules?

A—Yes. Percentage change and percentage distribution ratios are staples of financial analysis and may help to make the statistical section schedules more understandable to a user. Governments also may find that presenting these ratios with the required statistical section information is helpful in achieving the objectives set forth in paragraph .105 of this section. Exhibits D-18 and E-4 in nonauthoritative paragraph .902 of this section include examples of the use of these ratios. Although these ratios may be a valuable complement to the statistical section schedules, *they may not be presented in lieu of* the actual information required by this section.

[GASBIG 2015-1, Q9.44.1]

.727-7 Q—May governments include comparisons of the information required by this section with other governments?

A—Yes, if they believe doing so helps to achieve the objectives set forth in paragraph .105 of this section. Comparisons with peer entities can add contextual meaning that cannot be obtained by analyzing the information of a single government. Comparative information can help a user to make judgments about the strength of a particular government's economic condition in relation to the economic condition of similar entities. (See, for example, the comparative revenue rate information illustrated in Exhibit E-6 in nonauthoritative paragraph .902 of this section.)

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Governments should be cautious, however, that any comparative information they present is indeed *comparable*. For example, definitions of assessed value vary from state to state, and even from locality to locality within some states. Furthermore, it should be noted that statistical section information is not principally intended to foster intergovernmental comparisons, although it ultimately may be used in that manner. Rather, the general focus of the statistical section is to assist the user of the financial report in using the basic financial statements, notes, and required supplementary information to understand and assess that particular government's economic condition.

[GASBIG 2015-1, Q9.45.1]

.728 Sources, Assumptions, and Methodologies

No questions assigned.

.729 Narrative Explanations

.729-1 Q—How does one know when to provide a narrative explanation in a schedule?

A—In general, a government should not presume that the users of its financial report are intimately familiar with the causes of the government's financial results in any given year or with the specific requirements of the statistical section standards. Governments should look for opportunities to present brief narratives that:

- Make it easier for a reader to find information in the statistical section and to use it meaningfully
- Let the users know about significant changes in the nature of the information in the schedules
- Explain significant occurrences that affect the information, which a user otherwise would not be aware of
- Connect the contextual information of the statistical section with the basic financial statements, notes, and required supplementary information it is intended to amplify
- Help the users to utilize the statistical section information to understand and assess a government's economic condition.

Ultimately, determining what kinds of narrative explanations are appropriate and when they are suitable to be used is a matter of a government's professional judgment.

[GASBIG 2015-1, Q9.47.1]

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- .729-2 Q—Are governments required to present the table of contents for the statistical section?

A—No. However, a government might utilize narrative explanations, such as a table of contents, to help a user understand the nature of statistical section information and make it easier for the reader to use. Exhibit A-1 in nonauthoritative paragraph .902 of this section provides an illustration of narrative explanations.

[GASBIG 2015-1, Q9.47.2]

.730 Required Supplementary Information Presented with Statistical Tables

- .730-1 Q—What information is required to be presented in required supplementary information (RSI) in separately issued public entity risk pool reports?

A—As discussed in paragraph .147 of Section Po20, RSI consists of two tables:

- a. A 10-year revenue and claims development table
- b. A 2-year reconciliation of total claims liabilities by type of contract.

The 10-year revenue and claims development table shows trends in current claims and development in prior years' claims. It also shows, over time, how well a pool is performing its underwriting function and its claims estimation (loss reserving) function.

The two-year reconciliation of total claims liabilities by type of contract provides additional information about the pool's operations. For example, disaggregated claim liability information shows the extent to which changes in liabilities for claims costs and related expenses are due to current claims versus developments in prior years' claims.

[GASBIG 2015-1, Q3.35.1]

- .730-2 Q—What information is required to be reported as RSI in the reports of a financial reporting entity in which a public entity risk pool is included?

A—Footnote 9 in Section Po20 provides that, if a pool is included as part of another financial reporting entity *and* the pool does not issue a separate report, the information required by that paragraph should be presented after the notes to the reporting entity's financial statements. If the reporting entity issues a comprehensive annual financial report or presents a statistical section together with its basic financial statements, included pools may present the RSI as operating information in the statistical information.

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Paragraph .147 of Section Po20 does not address the situation when a pool is included as part of another financial reporting entity, *but* the pool issues a separate report. However, paragraph .146 of Section C50, “Claims and Judgments,” requires the financial statements of the reporting entity to emphasize disclosures about the primary government’s participation in the pool and to include a reference to the separate report of the pool.

[GASBIG 2015-1, Q3.35.2]

.730-3 Q—If a pool’s data are maintained on a policy-year basis, should the two-year reconciliation of total claims liabilities (paragraph .146f of Section Po20) and two-year reconciliation of claims liabilities by type of contract (paragraph .147b of Section Po20) be presented on a policy-year basis?

A—No. The reconciliation should tie to the financial statements. To determine the year-end liability, the data should be re-sorted into a fiscal-year basis. The initial effort may be difficult, but this should facilitate preparation of financial statements, disclosures, and RSI in future years.

[GASBIG 2015-1, Q3.37.1]

.730-4 Q—If a pool’s accident year (for **occurrence-based policies**),⁹ report year (for claims-made policies), or policy year is different from its accounting or fiscal year, should all of the data in the 10-year revenue and claims development table tie to the financial statements?

A—No. Only the information required by paragraphs .147a(1) and .147a(2) of Section Po20 of the 10-year revenue and claims development table are based on fiscal-year information and should tie to the financial statements. Those amounts should be presented on an applying the economic resources measurement focus and accrual basis of accounting.

It was anticipated that the information required by paragraphs .147a(3)–.147a(7) of Section Po20 of the 10-year table would not necessarily tie into the financial statements if they are on an accident-, report-, or policy-year basis. (See paragraph .147 of Section Po20 and paragraphs 36 and 37 in the Basis for Conclusions section of Statement No. 30, *Risk Financing Omnibus*.)

[GASBIG 2015-1, Q3.37.2, as amended by GASBS XX, fn10]

⁹Terms defined in paragraph .731 of this section are shown in **boldface type** the first time they appear in this paragraph. [GASBIG 2015-1, fn4]

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.730-5 Q—What unallocated claim adjustment expenses are to be included in the 10-year revenue and claims development table?

A—Unallocated adjustment expenses are one of two components to line 2. They include costs related to settling claims that cannot be attributed to specific claims. This component may include, for example, salaries paid to claims department staff or costs related to a fixed-fee contract with a claims adjusting service (where payments made to the service company have no direct correlation with claims adjusted). The second component of line 2 consists of the “other costs” of the pool, as defined in paragraph .127 of Section Po20. Other costs are generally the administrative or overhead costs of the pool—costs not related to settling claims or to acquiring or renewing participation contracts.

[GASBIG 2015-1, Q3.38.1]

.730-6 Q—Do estimated incurred claims and expenses and reestimated incurred claims and expenses in the 10-year revenue and claims development table include both known claims and IBNR claims?

A—Yes. IBNR claims should be included in the 10-year revenue and claims development table if those claims are eligible to be accrued as liabilities for financial statement purposes because the amounts are probable and estimable. That is, the claims should be included if they are eligible for accrual based on paragraph .119 of Section Po20. *IBNR claims generally are estimable.*

[GASBIG 2015-1, Q3.39.1]

.730-7 Q—Should discounted claim amounts be reported in the 10-year revenue and claims development table?

A—Paragraph .147 of Section Po20 neither requires nor prohibits discounting of liabilities in the 10-year revenue and claims development table. However, if discounted claims liabilities are presented in the financial statements (as allowed or required in paragraph .121 of Section Po20), discounted claims amounts should be reported in the 10-year revenue and claims development table.

[GASBIG 2015-1, Q3.40.1]

.730-8 Q—Is it necessary to convert claims development triangles (used by a pool, for instance, in underwriting) that are prepared on another basis to a policy-year basis for the 10-year revenue and claims development table?

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A—No. Paragraph .147 of Section Po20 allows presentation of claim information on an accident-year basis (for occurrence-based policies) or report-year basis (for claims-made policies), as long as one basis is consistently applied. Incurred claims costs and allocated claim adjustment expenses (including IBNR) should be assigned to the accident, report, or policy year in which the event that triggered coverage under the pool's contract occurred. The purpose of the table is to determine trends in the underwriting success of the pool.

Incurred claims costs and allocated claim adjustment expenses (including IBNR) for each policy or contract are assigned to the accident, report, or policy year in which the event that triggered coverage (for example, the incident giving rise to a claim in an occurrence-based policy, the reporting of a claim in a claims-made policy, or the payment of a claim in a claims-paid policy) under the policy or contract occurred.

Occurrence-based coverage

For occurrence-based coverage for which (a) *all* participants have a common insurance policy or participation contract renewal date and (b) *all* insurance policies or participation contracts have a coverage period that is the same as the pool's fiscal year, the policy-year basis is the same as the fiscal-year basis.

For occurrence-based coverage for which (a) *all* participants have a common policy or contract renewal date and (b) *any* policy or contract issued by the pool has a coverage period that is *not* the same as the pool's fiscal year, data should be converted to an accident- or policy-year basis by reassigning incurred claims costs and allocated claim adjustment expenses (including IBNR) to the policy year in which the event that triggered coverage under the policy or contract occurred.

For occurrence-based coverage for which participants have policy or contract renewal dates that fall at various times during the pool's fiscal year, data should be converted to an accident- or policy-year basis by reassigning incurred claims costs and allocated claim adjustment expenses (including IBNR) to the policy year in which the event that triggered coverage under the policy or contract occurred.

Claims-made coverage

For claims-made coverage, the policy or contract to which incurred claims costs and allocated claim adjustment expenses (including IBNR) should be assigned is the reporting period in which the event that triggered coverage (generally the reporting of a claim) under the policy or contract occurred.

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Claims-paid coverage

For policies or contracts with claims-paid or cash flow coverage provisions, the policy or contract to which incurred claims costs and allocated claim adjustment expenses (including IBNR) should be assigned is the reporting period in which the event that triggered coverage (generally the payment of a claim) under the policy or contract occurred. However, if claims-paid policies may become occurrence-based or claims-made policies, the following applies:

- If, under any circumstance, a policy or contract issued by the pool would provide coverage on an occurrence basis, the policy or contract should be accounted for as occurrence-based coverage.
- If a policy or contract issued by a pool would provide coverage on an occurrence basis and on a claims-made basis (such as in a claims-made policy that contains a policyholder right to convert to an occurrence-based coverage or in an occurrence-based policy that contains an insurer right to convert the policy to claims-made coverage), the policy or contract should be accounted for as occurrence-based coverage.
- If, under any circumstance, a policy or contract issued by the pool would provide coverage on a claims-made basis, the policy or contract should be accounted for as claims-made coverage.

Other types of coverage

For all other types of coverage, conversion is required, as necessary, so that incurred claims costs and allocated claim adjustment expenses (including IBNR) are assigned to the policy year in which the event that triggered coverage under the policy or contract occurred.

[GASBIG 2015-1, Q3.41.1]

.730-9 Q—If the policy year for a policy or participation contract is not the same as the fiscal year of the pool, what date within the policy or contract period should be used for purposes of assigning incurred claims costs and allocated claim adjustment expenses (including IBNR) to the policy year?

A—The annual inception date or renewal date of the policy or contract should be used. A standard policy year is not assumed for the 10-year revenue and claims development table. For example, during 20X2, the pool may have issued three different policies (contracts)—one started on January 1, another on March 1, and the third on June 1. Claims on all three policies will be included in the claims development for policy year 20X2, even though the one-year period in each contract is different and some of the covered

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events may physically occur in 20X3. If the claims for all three policies are consistently reported, the table will provide information on trends in loss development on claims.

[GASBIG 2015-1, Q3.41.2]

.730-10 Q—What are some examples of circumstances that should be evaluated for disclosure of changes in a pool's loss, expense, reinsurance, or excess insurance, or other transactions that materially affect amounts presented in the 10-year revenue and claims development table, as required by paragraph .147 of Section Po20?

A—The premiums charged by the pool are based on certain assumptions and are calculated so that revenues will be sufficient to cover expenses for each contract type. If those assumptions do not come to fruition, it is possible that premiums will not be adequate to meet claims obligations or that premiums are excessive. Examples include:

- a. Change in limits, terms, or conditions of reinsurance or excess insurance
- b. Inability or unwillingness of reinsurers or excess insurers to pay losses and related expenses
- c. Change in the risk retention (net of reinsurance or excess insurance) of the pool
- d. Change in commission (recovery of acquisition or other costs) paid by reinsurers or excess insurers (per paragraph .134 of Section Po20)
- e. Change in rating systems—for example, how exposure is determined or premium charges are allocated among participants
- f. Emergence or existence of dissimilar loss patterns between types of contracts issued
- g. Change in the mix (as a percentage of total) of premium dollars by type of contract
- h. Change in claims policy, underwriting policy, or claims reserving policy
- i. Change in types, limits, or scope of coverages provided by the pool to participants
- j. Dissimilarities in effect of loss reserve discounting by type of contract or by year
- k. Dissimilarities in loss and claim adjustment expense payout patterns by type of contract or by year
- l. Dissimilarities in percentage of unallocated claim adjustment expense by type of contract or changes from year to year
- m. Emergence of dissimilar patterns of claims count by type of contract or by year

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- n. Imminent or pending litigation, other adjudication, or arbitration that has the potential of materially affecting assumptions regarding information reported in RSI.

These types of events, if significant, may signal a potential change in claims development and in the sufficiency of the pool's resources to fulfill its obligations. The additional disclosures should help financial statement users understand the effects of these changes.

[GASBIG 2015-1, Q3.42.1]

- .730-11 Q—Is there a preferred format for disclosing changes in a pool's loss, expense, reinsurance, excess insurance, or other transactions that materially affect amounts presented in the 10-year revenue and claims development table, as required by paragraph .147 of Section Po20?

A—No. These disclosures may be presented in narrative form or in tabular form, whichever format best conveys the information in a meaningful manner to likely users of public entity risk pool financial reports.

[GASBIG 2015-1, Q3.42.2]

- .730-12 Q—Should prior years' experience be restated in the 10-year revenue and claims development table if there have been changes in coverage or accounting practices during the 10-year period?

A—Generally, changes in coverage are prospective, but changes in accounting methods may affect prior years. Each year, a revised estimate of the net incurred claims and claim adjustment expenses should be presented for each policy year on line 6 of the table. Line 7 shows the cumulative change in the estimates. Prior-year information on lines 3–6 should not be retroactively restated; that information represents the best estimate at the time it was presented. However, lines 1 and 2 are based on fiscal-year information that ties to the financial statements. To the extent that prior-year financial statements are restated, the table should be modified on those two lines. The nature and effect of any of these changes should be disclosed.

[GASBIG 2015-1, Q3.43.2]

- .730-13 Q—If a primary government includes more than one public entity risk pool, can the disclosures required by Section Po20 be combined with RSI for the pools?

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A—Most of the disclosures for the pools can be combined. However, the disclosure provisions in paragraphs .121–.123 of Section 2600 should be applied. (See Question .720-1 in Section Po20.)

The 10-year revenue and claims development table required by paragraph .147a of Section Po20 and the reconciliation of total claims liabilities by type of contract required by paragraph .147b of Section Po20 should be presented separately for each pool unless the underwriting for each pool is the same. The extent of any RSI presentation depends on the materiality of the pool, as discussed in paragraph .123 of Section 2600.

[GASBIG 2015-1, Q3.43.3]

.730-14 Q—Does the source of underlying loss data need to be disclosed?

A—This information is not required by Section Po20. It may be presented if the financial statement preparer believes that it enhances the disclosures required by paragraphs .146b and .146d of Section Po20, or if it explains trends in the 10-year revenue and claims development table required by paragraph .147 of Section Po20.

[GASBIG 2015-1, Q3.44.1]

.730-15 Q—How should reinsurance recoveries be treated in the 10-year revenue and claims development table?

A—Amounts in the 10-year table are shown gross (as defined by paragraph .147a(3) of Section Po20). This may necessitate a separate set of claims records for actuarial purposes, showing all claims with future development. This information could be combined with reinsurance information to derive the necessary amounts to meet the requirements of Section Po20.

[GASBIG 2015-1, Q3.45.1]

.731 Definitions

.731-1 The following paragraphs contain definitions of certain terms *as they are used in paragraphs .701–.730 of this section*; the terms may have different meanings in other contexts.

.731-2 **Claims-paid policy or contract.** A type of policy or participation contract in which the obligation of the pool to pay the claim is not fixed until the pool has physically paid the claim. A claim that has not physically been paid—regardless of the date of the occurrence or event giving rise to the claim, the time at which the claim was reported, and the legal status of the claim—is

not covered. The policy may impose additional requirements, such as time periods when the event giving rise to the claim is required to occur or be reported in order to be covered. [GASBIG 2015-1, ¶8]

.731-3 **Future development.** Changes in expected loss and claim adjustment expenses associated with a claim (reported or unreported) between a point in time (for example, the statement of net position/balance sheet date) and the ultimate disposition of the claim. (In many situations, the term case reserve development is used in the commercial insurance industry.) [GASBIG 2015-1, ¶8]

.731-4 **Occurrence-based policy or contract.** A type of policy or participation contract that covers losses that happen during the policy period, regardless of when the claims are asserted, reported, or paid. [GASBIG 2015-1, ¶8]

INTERIM FINANCIAL REPORTING

SECTION 2900

Source: NCGAS 1

See also: Section 2200, "Comprehensive Annual Financial Report"

Statement of Principle Interim Financial Reporting

Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes. [NCGAS 1, ¶128]

.101 Financial statements and schedules are derived from the accounts and related records. *Interim* financial statements cover periods of less than one year (e.g., a month or quarter) and traditionally have been prepared primarily for internal use. *Annual* financial statements are prepared for each fiscal year to serve information needs of both internal and external users. [NCGAS 1, ¶130]

.102 Interim financial reports are comprised principally of statements that reflect ~~current~~short-term financial position at the end of a month or quarter and compare actual financial results with budgetary estimates and limitations, for the month or quarter and/or for the year to date. Interim reports typically are prepared primarily for internal use. Thus, they usually are prepared on the budgetary basis and often do not include statements reporting general capital assets or general long-term debt. Further, they may properly contain budgetary or cash flow projections and other information deemed pertinent to effective management control during the year. [NCGAS 1, ¶133, as amended by GASBS 34, ¶180 and GASBS XX, ¶127]

.103 Appropriate interim budgetary reports should be prepared during the fiscal period to facilitate management control and legislative oversight of governmental fund financial operations. Such reports are important both to ~~revenue~~budgetary inflow of resources and ~~expenditure~~budgetary outflow of resources control processes and to facilitate timely planning and budgetary revisions. [NCGAS 1, ¶193, as amended by GASBS XX, ¶127]

.104 The key criteria by which internal interim reports are evaluated are their relevance and usefulness for purposes of management control, which include planning future operations as well as evaluating current financial status and results to date. Continual efforts should be made to assure that accounting and related interim information properly serve management control needs. Because managerial styles and perceived information needs vary widely, however, appropriate internal interim reporting is largely a matter of professional judgment rather than one to be set forth in detail here. [NCGAS 1, ¶134]

FAIR VALUE MEASUREMENT

SECTION 3100

Sources: GASBS 72, GASBS 92, GASBIG 2016-1

See also: Section I50, “Investments”
Section D40, “Derivative Instruments”

Scope of This Section

.101 This section establishes general principles for measuring **fair value**,¹ as well as disclosure requirements for assets and liabilities measured at fair value. Paragraphs .102–.114 of this section address the general principles of **fair value** measurements, paragraphs .115–.151 describe **valuation techniques** and approaches, paragraphs .152–.160 prescribe measurement principles, and paragraphs .161–.163 address disclosures. The application of fair value to certain assets and liabilities are addressed in the relevant transaction-specific sections of this Codification. [GASBS 72, ¶2; GASBS 72, ¶4]

General Principles

Definition of Fair Value

.102 Fair value is the price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the **measurement date**. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of a fair value measurement in both cases is the same—that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair value is an **exit price** at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. [GASBS 72, ¶5]

The Asset or Liability

.103 The focus of a fair value measurement is on a particular asset or liability. Therefore, when measuring fair value, a government should take into account the characteristics of the asset or liability that market participants would consider when pricing the asset or liability at the measurement date. Such characteristics include, for example, the condition and location of the asset and restrictions, if any, on the sale or use of the asset that are characteristics of the asset and not characteristics of a specific govern-

¹Terms defined in paragraphs .501–.547 are shown in **boldface type** the first time they are used in this section. [GASBS 72, fn1]

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Measurement

ment's ownership. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants. [GASBS 72, ¶6]

Unit of Account

.104 The particular asset or liability measured at fair value might be either (a) a single asset or liability (for example, a **financial instrument**) or (b) a group, whether a group of assets, a group of liabilities, or a group of related assets and liabilities (for example, a partnership). [GASBS 72, ¶7]

.105 Measurement, recognition, or disclosure of an asset or liability—whether a single asset or liability or a group—depends on the **unit of account** of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes. Once the unit of account is established, relevant measurement attributes and disclosures can be applied. [GASBS 72, ¶8]

Markets

.106 A fair value measurement assumes that a transaction to sell an asset or transfer a liability takes place in either (a) a government's **principal market** or (b) a government's **most advantageous market**, in the absence of a principal market. The most advantageous market is determined after taking into account **transaction costs** and **transportation costs**. [GASBS 72, ¶9]

.107 A government need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market. However, it should take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the government normally would enter into a transaction to sell an asset or to transfer a liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market. [GASBS 72, ¶10]

.108 If there is a principal market for the asset or liability, the fair value measurement should represent the price in that market (whether that price is directly observable for an identical asset or whether it is determined using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date. [GASBS 72, ¶11]

.109 A government should have access to the principal (or most advantageous) market at the measurement date. The government's principal (or most advantageous) market (and, thus, market participants) should be considered from the perspective of the government, thereby allowing for differences between and among entities with different activities. [GASBS 72, ¶12]

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.110 Although a government should be able to access the market, it does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market. [GASBS 72, ¶13]

.111 Even if there are no observable market transactions to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement should assume that a transaction takes place at that date, considered from the perspective of a market participant that controls the asset or is obligated for the liability. That assumed transaction establishes a basis for determining the price to sell the asset or to transfer the liability. [GASBS 72, ¶14]

Market Participants

.112 A government should measure the fair value of an asset or a liability using the assumptions that market participants would use in pricing the asset or liability, assuming that market participants act in their economic best interest. In developing those assumptions, a government need not identify specific market participants. Rather, the government should identify characteristics that distinguish market participants generally, considering factors specific to all of the following:

- a. The asset or liability
- b. The principal or most advantageous market, as appropriate, for the asset or liability
- c. Market participants with whom the government would enter into a transaction in that market.

[GASBS 72, ¶15]

The Price and Transaction Costs

.113 The price in the principal (or most advantageous) market used to measure the fair value of an asset or a liability should not be adjusted for transaction costs even if those costs are separable. Transaction costs are not a characteristic of an asset or a liability. Rather, they are specific to a transaction and will differ depending on how a government enters into a transaction for the asset or liability. [GASBS 72, ¶16]

.114 Transaction costs do not include transportation costs. If location is a characteristic of the asset (as might be the case for a commodity), the price in the principal (or most advantageous) market should be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market. [GASBS 72, ¶17]

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Measurement

Valuation Techniques and Approaches

Valuation Techniques

.115 Valuation techniques are used to determine fair value. A government should use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant **observable inputs** and minimizing the use of **unobservable inputs**. A government should use valuation techniques consistent with one or more of three approaches to measuring fair value: the **market approach**, **cost approach**, and **income approach**. [GASBS 72, ¶18]

.116 A single valuation technique is appropriate in some cases (for example, using quoted prices in an **active market** for identical assets or liabilities). In other cases, multiple valuation techniques are appropriate (for example, using both a **present value technique** and a **market multiples technique** for a single asset or liability). In such cases, the results should be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value under the circumstances. If an asset or a liability is composed of multiple components, multiple valuation techniques also may be used. [GASBS 72, ¶19]

.117 Valuation techniques used to measure fair value should be applied consistently from period to period. However, a change in a valuation technique or its application (for example, a change in the weighting of individual valuation techniques if multiple valuation techniques are used, or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value under the circumstances. That might be the case if, for example, any of the following events occur:

- a. New markets develop
- b. New information becomes available
- c. Information previously used is no longer available
- d. Valuation techniques improve
- e. Market conditions change.

[GASBS 72, ¶20]

.118 If the transaction price is a fair value measurement at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique should be calibrated so that, at initial recognition, the result of the valuation technique equals the transaction price. After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, a government should ensure that those valuation techniques reflect observable market data at the measurement date. For example, if the

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price of a building at acquisition differs from prices of similar buildings due to variances in building quality, the fair value of that building at subsequent measurement dates should be the observable market prices for similar buildings as of the subsequent measurement dates (observable market data), adjusted for building quality (unobservable inputs). [GASBS 72, ¶21]

.119 A revision resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate. [GASBS 72, ¶22]

Valuation Approaches

Market Approach

.120 The market approach to measuring fair value uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities. Using quoted market prices is a technique that is consistent with the market approach. Additional examples include the use of the market multiples technique and the **matrix pricing technique**. [GASBS 72, ¶23]

.121 The market multiples technique uses multiples or ratios (such as price-to-earnings or market-to-book-value ratios) derived from identical or similar assets, liabilities, or groups of assets and liabilities (known as comparables) to determine the fair value of an asset or liability. Market multiples might be in ranges with a different multiple for similar assets, liabilities, or groups. For example, the fair value of an **investment** in a company could be determined based on the price-to-earnings ratios of similar companies. However, similar companies may trade at different ratios; therefore, the selection of the appropriate ratio within the range of price-to-earnings ratios requires professional judgment, considering qualitative and quantitative factors specific to the measurement. [GASBS 72, ¶24]

.122 The matrix pricing technique is used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities. Instead, matrix pricing relies on the securities' relationship to other benchmark quoted securities. [GASBS 72, ¶25]

Cost Approach

.123 The cost approach to measuring fair value reflects the amount that would be required currently to replace the present service capacity of an asset. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence can be physical, functional (technological), or economic (external). [GASBS 72, ¶26]

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Measurement

Income Approach

.124 The income approach to measuring fair value converts future amounts (for example, cash flows or revenues and expenses) to a single current amount (such as would be determined by using the discounted present value technique). When the income approach is used, the fair value measurement reflects current market expectations about those future amounts. Valuation techniques consistent with the income approach include, for example, (a) the present value technique, (b) the **option pricing model technique**, such as the Black–Scholes–Merton formula, and (c) the **multiperiod excess earnings technique**. [GASBS 72, ¶27]

Inputs to Valuation Techniques

Basic Principles

.125 Valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. If there is a quoted price in an active market for an identical asset or an identical liability, a government should use that quoted price without adjustment if measuring fair value, except as specified in paragraph .135. [GASBS 72, ¶28]

.126 A government should select **inputs** that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability. In some cases, those characteristics result in the application of an adjustment, such as a control premium or noncontrolling interest discount. However, a fair value measurement should not incorporate a premium or discount that is inconsistent with the unit of account provision in paragraphs .104 and .105. [GASBS 72, ¶29]

.127 Premiums or discounts that reflect size as a characteristic of a government's holding are not permitted in the measurement of fair value. An example is a blockage factor that when applied to a **Level 1 input** would adjust the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by a government, as described in paragraph .136. On the other hand, if measuring the fair value of a controlling interest, a control premium is a characteristic of the asset or liability. [GASBS 72, ¶30]

Inputs Based on Bid and Ask Prices

.128 If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a **dealer market**), the price within the bid-ask spread that is most representative of fair value under the circumstances should be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (as discussed in paragraphs .129–.141). If no price is more representative than another, the use of a bid price (for an asset position) and an ask price (for a liability posi-

Fair Value Measurement

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tion) is permitted. Mid-market pricing or other pricing conventions that are used by market participants for measuring fair value within a bid-ask spread also are permitted. [GASBS 72, ¶31]

Fair Value Hierarchy

.129 The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. **Level 2 inputs** are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly. **Level 3 inputs** are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. [GASBS 72, ¶32]

.130 If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement. For example, if there are three inputs significant to a certain fair value measurement, two of them are Level 2 inputs, and one is a Level 3 input, the fair value measurement would be categorized in Level 3 of the fair value hierarchy. Assessing the significance of a particular input to the entire measurement requires professional judgment, taking into account factors specific to the asset or liability. [GASBS 72, ¶33]

.131 The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques, not the valuation techniques used to measure fair value. For example, a measurement of fair value that uses a present value technique might be categorized within either Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized. [GASBS 72, ¶34]

.132 If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resultant measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant takes into account the effect of a restriction on the sale of an asset when determining the price for the asset, a government would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy. [GASBS 72, ¶35]

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Measurement

Level 1 Inputs

.133 A quoted price for identical assets or liabilities in an active market provides the most reliable evidence of a Level 1 input of fair value and should be used to measure fair value without adjustment whenever available, except as specified in paragraph .135. Examples of markets in which inputs might be observable include **exchange markets**, dealer markets, **brokered markets**, and **principal-to-principal markets**. [GASBS 72, ¶36]

.134 A Level 1 input will be available for many **financial assets** and **financial liabilities**, some of which might be exchanged in multiple active markets (for example, on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- a. The principal market for an asset or liability or, in the absence of a principal market, the most advantageous market for an asset or liability
- b. Whether the government can enter into a transaction for an asset or liability at the price in that market at the measurement date.

[GASBS 72, ¶37]

.135 A government should not adjust a Level 1 input except in the following circumstances:

- a. *Large number of similar assets or liabilities.* An adjustment to a Level 1 input should be made if (1) a government holds a large number of similar (but not identical) assets or liabilities (for example, debt securities) that are measured at fair value and
(2) a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually, except as noted in paragraph .136. That is, given the large number of similar assets or liabilities held by the government, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date. In this case, a government may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within either Level 2 or Level 3 of the fair value hierarchy.
- b. *Quoted price not representative of fair value.* An adjustment to a Level 1 input should be made if a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market, or announcements) take place after the close of a market but before the measurement date. A government should establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within either Level 2 or Level 3 of the fair value hierarchy.

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- c. *Fair value of an asset not representative of fair value of a liability.* An adjustment to a Level 1 input should be made if (1) the fair value of a liability is measured using the quoted price for the identical item traded as an asset in an active market and (2) that price needs to be adjusted for factors specific to the asset that are not applicable to the liability (see paragraph .157). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within either Level 2 or Level 3 of the fair value hierarchy.

[GASBS 72, ¶38]

.136 If a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) is held and the asset or liability is traded in an active market, the fair value of the asset or liability should be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by a government. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held, and placing orders to sell the position in a single transaction might affect the quoted price. [GASBS 72, ¶39]

Level 2 Inputs

.137 Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active
- c. Inputs other than quoted prices that are observable for the asset or liability, such as:
 - (1) Interest rates and yield curves observable at commonly quoted intervals
 - (2) Implied volatilities
 - (3) Credit spreads
- d. Market-corroborated inputs.**

[GASBS 72, ¶40]

.138 For financial reporting purposes, if an asset or liability has a specified (contractual) term, a Level 2 input is required to be observable for substantially the full term of the asset or liability. [GASBS 72, ¶41]

.139 Adjustments to Level 2 inputs will vary depending on factors specific to an asset or liability, including:

- a. The condition or location of the asset

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- b. The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph .158)
- c. The volume or level of activity in the markets within which the inputs are observed.

[GASBS 72, ¶42]

Level 3 Inputs

.140 A government should develop Level 3 inputs using the best information available under the circumstances, which might include the government's own data. In developing unobservable inputs, a government may begin with its own data, but it should adjust those data if (a) reasonably available information indicates that other market participants would use different data or (b) there is something particular to the government that is not available to other market participants. A government need not undertake exhaustive efforts to obtain information about market participant assumptions; however, a government should take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described in this paragraph are considered market participant assumptions and meet the objective of a fair value measurement. [GASBS 72, ¶43]

.141 Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment if there is significant measurement uncertainty. That could be the case if (a) there has been a significant decrease in the volume or level of activity compared with normal market activity for the asset or liability, or similar assets or liabilities, and (b) a government has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs .142–.148. [GASBS 72, ¶44]

Measuring Fair Value If the Volume or Level of Market Activity for an Asset or a Liability Has Significantly Decreased

.142 The fair value of an asset or a liability might be affected if there has been a significant decrease in the volume or level of activity in relation to normal market activity for the asset or liability (or similar assets or liabilities). Determining the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires professional judgment. To determine whether, on the basis of the available evidence, there has been a significant decrease in the volume or level of activity for an asset or liability, a government should evaluate the significance and relevance of factors such as the following:

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- a. There are few recent transactions.
- b. Price quotations are not developed using current information.
- c. Price quotations vary substantially either over time or among **market makers** (for example, some brokered markets).
- d. Indices that previously were highly correlated with the fair values of an asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
- e. There is a significant increase in implied liquidity **risk premiums**, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with a government's estimate of expected cash flows, taking into account all available market data about credit and other **nonperformance risk** for the asset or liability.
- f. There is a wide bid-ask spread or a significant increase in the bid-ask spread.
- g. There is a significant decline in the activity of a market for new issues (that is, a primary market) for an asset or liability or similar assets or liabilities, or there is an absence of such a market.
- h. Little information is publicly available (for example, for transactions that take place in a principal-to-principal market).

[GASBS 72, ¶45]

.143 If a government concludes that there has been a significant decrease in the volume or level of activity for an asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly (see paragraphs .146–.148). However, a government may determine that a transaction or quoted price does not represent fair value (for example, there may be transactions that are not orderly). If so, an adjustment to the transactions or quoted prices will be necessary if (a) the government uses those prices as a basis for measuring fair value, and (b) that adjustment is significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (for example, if a price for a similar asset requires significant adjustment to make it comparable to the asset being measured, or if the price is stale). [GASBS 72, ¶46]

.144 Regardless of the valuation technique used, a government should include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability. In some cases, determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment should be reflective of an orderly transaction between market participants at the measurement date under current market conditions. [GASBS 72, ¶47]

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Measurement

.145 If there has been a significant decrease in the volume or level of activity for an asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate (for example, changing from a technique based on market-observed prices to an **expected cash flow technique**). When weighing indications of fair value resulting from the use of multiple valuation techniques, a government should consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed. [GASBS 72, ¶48]

Identifying Transactions That Are Not Orderly

.146 The determination of whether a transaction is orderly can be difficult if there has been a significant decrease in the volume or level of activity for an asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances, it is not appropriate to conclude that all transactions in that market are not orderly. A government should evaluate the circumstances of the transaction to determine whether, based on the available evidence, the transaction is orderly. Circumstances that may indicate that a transaction is not orderly include the following:

- a. The period of exposure to the market before the measurement date was not adequate to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
- b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
- c. The seller is in or near bankruptcy (that is, the seller is distressed).
- d. The seller was required to sell to meet regulatory or legal requirements (that is, the seller was forced).
- e. The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

[GASBS 72, ¶49]

.147 A government should consider all of the following when measuring fair value, including the determination of **market risk** premiums or discounts:

- a. If the evidence indicates that a transaction is orderly, a government should take into account that transaction price. The reliance on that transaction price compared with other indications of fair value will depend on the facts and circumstances, such as:
 - (1) The volume of the transaction
 - (2) The comparability of the transaction to the asset or liability being measured
 - (3) The proximity of the transaction to the measurement date.
- b. If the evidence indicates the transaction is not orderly, a government should place little, if any, weight (compared with other indications of fair value) on that transaction price.

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- c. If a government does not have sufficient information to conclude that a transaction is orderly, it should take into account the transaction price. However, that transaction price may not represent fair value (that is, the transaction price is not necessarily the sole or primary basis for measuring fair value or determining market risk premiums or discounts). If a government does not have sufficient information to conclude that particular transactions are orderly, the government should place less weight on those transactions when compared with other transactions that are known to be orderly.

[GASBS 72, ¶50]

.148 To determine whether a transaction is orderly, a government should consider information that is reasonably available. If a government is a party to a transaction, it is presumed to have sufficient information to determine whether the transaction is orderly. [GASBS 72, ¶51]

Using Quoted Prices Provided by Third Parties

.149 Quoted prices provided by third parties, such as pricing services or brokers, may be used if a government has determined that the quoted prices provided by those parties are developed in accordance with the provisions of this section. [GASBS 72, ¶52]

.150 If there has been a significant decrease in the volume or level of activity for an asset or liability, a government should evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, a government should rely less on quoted prices that do not reflect the result of transactions (when compared with other indications of fair value that reflect the results of transactions). [GASBS 72, ¶53]

.151 The nature of a quoted price (for example, whether the quoted price is an indicative price or a binding offer) should be taken into account when considering the available evidence, with more consideration given to quoted prices provided by third parties that represent binding offers. [GASBS 72, ¶54]

Measurement Principles

Nonfinancial Assets

Highest and Best Use of Nonfinancial Assets

.152 If an accounting standard requires the application of fair value to a nonfinancial asset (for example, real property), the fair value measurement takes into account a market participant's ability to generate resources by using the asset according to its

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highest and best use or by selling it to another market participant that would use the asset according to its highest and best use. The highest and best use of a nonfinancial asset takes into account the use of the asset that is physically possible, legally permissible, and financially feasible, as follows:

- a. A use that is physically possible takes into account the physical characteristics of an asset that market participants would take into account when pricing the asset (for example, the location or size of a property).
- b. A use that is legally permissible takes into account any legal restrictions on the use of an asset that market participants would take into account when pricing an asset (for example, the current zoning regulations applicable to a property).
- c. A use that is financially feasible takes into account whether a use of an asset that is physically possible and legally permissible generates resources (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

[GASBS 72, ¶55]

.153 Highest and best use is determined from the perspective of market participants using relevant market data as of the measurement date, even if a government intends a different use for a nonfinancial asset. However, the government's current use of a nonfinancial asset that is measured at fair value is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset. [GASBS 72, ¶56]

.154 The highest and best use of a nonfinancial asset is based on certain assumptions used to measure the fair value of an asset, as follows:

- a. The highest and best use of a nonfinancial asset may provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities.
 - (1) If the highest and best use of the nonfinancial asset is for use in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (that is, its complementary assets and the associated liabilities) would be available to market participants.
 - (2) Liabilities associated with the nonfinancial asset and with the complementary assets include liabilities that provide resources but do not include liabilities used to acquire assets other than those within the group of assets.

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- (3) Assumptions about the highest and best use of a nonfinancial asset should be consistent for all of the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the nonfinancial asset would be used.
- b. The highest and best use of a nonfinancial asset may provide maximum value to market participants on a stand-alone basis. In that case, the fair value of the nonfinancial asset is the price that would be received in a transaction as of the measurement date to sell the nonfinancial asset to market participants that would use the nonfinancial asset on a stand-alone basis.

[GASBS 72, ¶57]

.155 The measurement of the fair value of a nonfinancial asset assumes that an asset is sold consistent with the unit of account provision in paragraphs .104 and .105. This is the case whether the fair value measurement assumes that the highest and best use of the nonfinancial asset is for use for an individual asset or for use for an asset in combination with other assets or with other assets and liabilities. If the highest and best use is for the asset in combination with other assets or with other assets and liabilities, a measurement of the fair value of a nonfinancial asset assumes that the market participant already holds the complementary assets and associated liabilities. [GASBS 72, ¶58]

Liabilities

Basic Principles

.156 Measurement of the fair value of a liability (for example, an interest rate swap that is in a liability position to a government) assumes that the liability is transferred to a market participant at the measurement date. The transfer of a liability assumes the liability would remain outstanding and the market participant transferee would be required to fulfill the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date. Even if there is no observable market to provide pricing information about the transfer of a liability (for example, because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets. [GASBS 72, ¶59]

Liabilities Held by Other Parties as Assets

.157 If a quoted price for the transfer of an identical or similar liability is not available and the identical item is held by another party as an asset, a government should measure the fair value of the liability from the perspective of a market participant that holds

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the identical item as an asset at the measurement date. In such cases, a government should measure the fair value of the liability as follows:

- a. Using the quoted price in an active market for the identical item held by another party as an asset, if that price is available
- b. If the quoted price in (a) is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset
- c. If the observable prices in (a) and (b) are not available, using another valuation technique, such as the following:
 - (1) Quoted prices for similar liabilities held by other parties as assets (a market approach)
 - (2) A present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability as an asset (an income approach).

[GASBS 72, ¶60]

.158 A government should adjust the quoted price of a liability held by another party as an asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability. A government should ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of an asset should be adjusted to determine the fair value of a liability include the following:

- a. The quoted price for the asset relates to a similar (but not identical) liability held by another party as an asset. For example, the liability may have a particular characteristic (such as the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability held as an asset.
- b. The unit of account for the asset is not the same as for the liability. For example, consider an insured interest rate swap that is in a liability position. In some cases, the price for such an asset reflects a combined price for a financial instrument comprising both the amounts due from the issuer and a third-party credit enhancement (for example, debt that is used with a financial guarantee from a third party). If the unit of account for the swap liability is not the combined financial instrument, the objective would be to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, a government would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

[GASBS 72, ¶61]

Fair Value Measurement

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Nonperformance Risk

.159 The fair value of a liability reflects the effect of nonperformance risk. Nonperformance risk includes, but may not be limited to, a government's own **credit risk**. Nonperformance risk is assumed to be the same before and after the transfer of the liability. When measuring the fair value of a liability, a government should take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the characteristics of the liability, such as (a) whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a nonfinancial liability) and (b) the terms of credit enhancements related to the liability, if any. [GASBS 72, ¶62]

Restrictions Preventing the Transfer of a Liability

.160 When measuring the fair value of a liability, a government should not include a separate input or an adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The effect of a restriction that prevents the transfer of a liability is either implicitly or explicitly included in the other inputs to the fair value measurement. For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer. [GASBS 72, ¶63]

Disclosures

.161 Disclosures required by this section should be organized by type of asset or liability. The following should be taken into consideration when determining the level of detail and disaggregation and how much emphasis to place on each disclosure requirement:

- a. *The nature, characteristics, and risks of an asset or a liability.* Assets and liabilities that share the same nature, characteristics or risks may be aggregated. For example, U.S. Treasury bills may be aggregated with short-term U.S. Treasury Separate Trading of Registered Interest and Principal Securities (STRIPS) because these investments have similar exposures to interest rate risk.
- b. *The level of the fair value hierarchy within which the fair value measurement is categorized.* A greater degree of uncertainty and subjectivity suggests that the number of types may need to be greater. For example, fair value measurements categorized within Level 3 of the fair value hierarchy may need greater disaggregation.

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- c. *Whether this section or another section specifies a type for an asset or a liability.* Disclosures should be disaggregated by type as specified by relevant accounting standards. For example, paragraph .165 of Section D40 requires derivative instrument disclosures that distinguish between hedging derivative instruments and investment derivative instruments.
- d. *The objective or the mission of the government.* The level of aggregation or disaggregation may differ based upon the objective or mission of the government. For example, the objective of an external investment pool to achieve income or profit suggests greater disaggregation compared to a general purpose government.
- e. *The characteristics of the government.* A government may be composed of governmental and business-type activities, individual major funds, nonmajor funds in the aggregate, or fiduciary funds (including fiduciary component units). Additional disclosures may be appropriate if the risk exposure of a particular fund is significantly greater than the deposit and investment risks of the primary government. For example, a primary government's total investments may not be exposed to a concentration of credit risk. However, if the government's capital projects fund (a major fund) has all of its investments in one issuer of corporate bonds, disclosure should be made for the capital projects fund's exposure to a concentration of credit risk.
- f. *Relative significance of assets and liabilities.* The relative significance of assets and liabilities measured at fair value compared to total assets and liabilities should be evaluated in terms of the government structure as discussed in subparagraph (e).
- g. *Whether separately issued financial statements are available.* A government may further aggregate disclosures if a component unit issues its own separate financial statements containing disaggregated information. For example, a state government may consider reduced disclosures of fair value measurements of investments in certain entities that calculate the **net asset value (NAV) per share** (or its equivalent) if the financial statements of the state's pension plan include that information.
- h. *Line items presented in the statement of net position.*² A type of asset or liability will often require greater disaggregation than the line items presented in the statement of net position. For example, the statement of net position reports "cash and investments" while Sections C20, "Cash Deposits with Financial Institutions," I50, and I55, "Investments—Reverse Repurchase Agreements," require disclosures that focus on deposits and investments.

[GASBS 72, ¶180, as amended by GASBS 84, ¶15 and ¶14–¶18]

.162 A government should disclose the following information for each type of asset or liability measured at fair value in the statement of net position after initial recognition. Recurring fair value measurements of assets or liabilities are those that other sections require or permit in the statement of net position at the end of each reporting period. Nonrecurring fair value measurements of assets or liabilities are those that other sections require or permit in the statement of net position in particular circumstances (for example, see paragraph .120 of Section L30, "Lending Activities").

²The term *statement of net position* includes ~~governmental funds~~ short-term financial resources balance sheets. [GASBS 72, fn2, as amended by GASBS XX, ¶11]

Fair Value Measurement

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- a. For recurring and nonrecurring fair value measurements:
 - (1) The fair value measurement at the end of the reporting period
 - (2) Except for investments within the scope of paragraphs .127–.130 of Section I50 that are measured at the NAV per share (or its equivalent),³ the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, Level 2, or Level 3)
 - (3) A description of the valuation techniques used in the fair value measurement
 - (4) If there has been a change in valuation technique that has a significant impact on the result (for example, changing from an expected cash flow technique to a **relief from royalty technique** or the use of an additional valuation technique), that change and the reason(s) for making it.
- b. For nonrecurring fair value measurements: the reason(s) for the measurement.

[GASBS 72, ¶81, as amended by GASBS 92, ¶12; GASBS 92, ¶12]

Additional Disclosures for Fair Value Measurements of Investments in Certain Entities That Calculate the NAV per Share (or Its Equivalent)

.163 The disclosures in this paragraph apply to investments in entities that meet all of the following criteria: (a) calculate the NAV per share (or its equivalent), regardless of whether the method of determining fair value in paragraph .127 of Section I50 has been applied; (b) do not have a **readily determinable fair value**; and (c) are measured at fair value on a recurring or nonrecurring basis during the period. A government should disclose information that addresses the nature and risks of the investments and whether the investments are probable of being sold at amounts different from the NAV per share (or its equivalent). To meet that objective, a government should disclose the following information for each type of investment:

- a. The fair value measurement of the investment type at the measurement date and a description of the significant investment strategies of the investee(s) in that type
- b. For each type of investment that includes investments that can never be redeemed with the investees, but a government receives distributions through the liquidation of the underlying assets of the investees: the government's estimate of the period over which the underlying assets are expected to be liquidated by the investees
- c. The amount of a government's unfunded commitments related to that investment type

³Fair values of investments within the scope of paragraphs .127–.130 of Section I50 that are measured at the NAV per share (or its equivalent) should not be categorized within the fair value hierarchy. [GASBS 72, fn3]

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- d. A general description of the terms and conditions upon which a government may redeem investments in the type (for example, quarterly redemption with 60 days' notice)
- e. The circumstances in which an otherwise redeemable investment in the type (or a portion thereof) might not be redeemable (for example, investments subject to a redemption restriction, such as a lockup or gate)
- f. For those otherwise redeemable investments in (e) that are restricted from redemption as of the government's measurement date: the estimate of when the restriction from redemption might lapse; if an estimate cannot be made, disclose that fact and how long the restriction has been in effect
- g. Any other significant restriction on the ability to sell investments in the type at the measurement date
- h. If a government determines that it is probable that it will sell an investment(s) for an amount different from the NAV per share (or its equivalent) as described in paragraph .120 of Section I50: the total fair value of all investments that meet the criteria in paragraph .120 and any remaining actions required to complete the sale
- i. If a group of investments would otherwise meet the criteria in paragraph .120 in Section I50 but the individual investments to be sold have not been identified (for example, if a government decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), such that the investments continue to qualify for the method of determining fair value in paragraph .127 of Section I50: the government's plans to sell and any remaining actions required to complete the sale(s).

[GASBS 72, ¶82]

Fair Value Measurement

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DEFINITIONS

.501 The following paragraphs contain definitions of certain terms *as they are used in this section*; the terms may have different meanings in other contexts. [GASBS 72, ¶86]

.502 **Active market.** A market in which transactions for an asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. [GASBS 72, ¶86]

.503 **Brokered market.** A market in which brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets. [GASBS 72, ¶86]

.504 **Cost approach.** A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). [GASBS 72, ¶86]

.505 **Credit risk.** The risk that a counterparty will not fulfill its obligations. [GASBS 72, ¶86]

.506 **Dealer market.** A market in which dealers stand ready to trade (either buy or sell for their own account), providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically, bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported, for example, by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group, Inc.) are dealer markets. The market for U.S. Treasury securities is another example of a dealer market. Dealer markets also exist for some other assets and liabilities, including other financial instruments, commodities, and physical assets (for example, used equipment). [GASBS 72, ¶86]

.507 **Exchange market.** A market in which closing prices are both readily available and generally representative of fair value. An example of such a market is the New York Stock Exchange. [GASBS 72, ¶86]

.508 **Exit price.** The price that would be received to sell an asset or paid to transfer a liability. [GASBS 72, ¶86]

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.509 **Expected cash flow technique.** The probability-weighted average (that is, mean of the distribution) of possible future cash flows. [GASBS 72, ¶86]

.510 **Fair value.** The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. [GASBS 72, ¶86]

.511 **Financial asset.** Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

- a. Receive cash or another financial instrument from a second entity
- b. Exchange other financial instruments on potentially favorable terms with the second entity (for example, an option).

[GASBS 72, ¶86]

.512 **Financial instrument.** Cash, evidence of an ownership interest in an entity, or a contract that both:

- a. Imposes on one entity a contractual obligation to (1) deliver cash or another financial instrument to a second entity or (2) exchange other financial instruments on potentially unfavorable terms with the second entity (for example, an option)
- b. Conveys to that second entity a contractual right to (1) receive cash or another financial instrument from the first entity or (2) exchange other financial instruments on potentially favorable terms with the first entity (for example, an option).

[GASBS 72, ¶86]

.513 **Financial liability.** A contract that imposes on one entity an obligation to do either of the following:

- a. Deliver cash or another financial instrument to a second entity
- b. Exchange other financial instruments on potentially unfavorable terms with the second entity (for example, an option).

[GASBS 72, ¶86]

.514 **Highest and best use.** The use of a nonfinancial asset by market participants that would maximize the value of the asset or the group of assets and liabilities within which the asset would be used. [GASBS 72, ¶86]

.515 **Income approach.** A valuation technique that converts future amounts (for example, cash flows or income and expenses) to a single current (discounted) amount. [GASBS 72, ¶86]

Fair Value Measurement

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.516 **Inputs.** The assumptions that market participants would use when pricing an asset or liability, including assumptions about risk, such as the following:

- a. The risk inherent in a particular valuation technique used to measure fair value (such as a pricing model)
- b. The risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable. [GASBS 72, ¶86]

.517 **Investee.** An entity that issued an equity instrument of which all or a portion is held by an investor. [GASBS 72, ¶86]

.518 **Investment.** A security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has present service capacity based solely on its ability to generate cash or to be sold to generate cash. [GASBS 72, ¶86]

.519 **Level 1 inputs.** Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. [GASBS 72, ¶86]

.520 **Level 2 inputs.** Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. [GASBS 72, ¶86]

.521 **Level 3 inputs.** Unobservable inputs for an asset or liability. [GASBS 72, ¶86]

.522 **Market approach.** A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or groups of assets and liabilities. [GASBS 72, ¶86]

.523 **Market-corroborated inputs.** Inputs that are derived principally from or corroborated by observable market data by correlation or other means. [GASBS 72, ¶86]

.524 **Market maker.** An entity or individual that provides both a bid and ask price and is willing and able to transact at those prices. [GASBS 72, ¶86]

.525 **Market multiples technique.** A valuation technique that relies on the use of multiples or ratios as an expression of market price relative to a key statistic, such as earnings, book value, or cash flows. [GASBS 72, ¶86]

.526 **Market participants.** Buyers and sellers that (a) are in the principal (or most advantageous) market for an asset or liability and (b) have all of the following characteristics:

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- (1) They are independent of each other. That is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if a government has evidence that the transaction was entered into at market terms.
- (2) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.
- (3) They are able to enter into a transaction for the asset or liability.
- (4) They are willing to enter into a transaction for the asset or liability. That is, they are motivated but not forced or otherwise compelled to do so.

[GASBS 72, ¶86]

.527 **Market risk.** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises the following:

- a. Interest rate risk
- b. Currency risk
- c. Other price risks.

[GASBS 72, ¶86]

.528 **Matrix pricing technique.** A valuation technique used to value securities based on their relationship to benchmark quoted prices. [GASBS 72, ¶86]

.529 **Measurement date.** The date as of which the fair value of an asset or liability is determined. [GASBS 72, ¶86]

.530 **Most advantageous market.** The market that maximizes the amount that would be received to sell an asset or minimizes the amount that would be paid to transfer a liability, after taking into account transaction costs and transportation costs. [GASBS 72, ¶86]

.531 **Multiperiod excess earnings technique.** A valuation technique based on prospective financial information (for example, revenues, expenses, or cash flows) associated with a collection of assets. The initial amount is reduced for the contributions of supporting assets, with the residual amount being the excess earnings associated with the asset being valued. [GASBS 72, ¶86]

.532 **Net asset value (NAV) per share.** The amount of net assets attributable to each share of capital stock (other than senior equity securities; that is, preferred stock) outstanding at the close of the period. It excludes the effects of assuming conversion of outstanding convertible securities, whether or not their conversion would have a diluting effect. [GASBS 72, ¶86]

Fair Value Measurement

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.533 **Nonperformance risk.** The risk that an entity will not fulfill an obligation. Nonperformance risk includes, but may not be limited to, a government's own credit risk. [GASBS 72, ¶86]

.534 **Observable inputs.** Inputs that are developed using market data, such as publicly available information about actual events or transactions, and which reflect the assumptions that market participants would use when pricing an asset or liability. [GASBS 72, ¶86]

.535 **Option pricing model technique.** A valuation technique used to value an option contract that is based on the critical terms of the contract and implied volatility. [GASBS 72, ¶86]

.536 **Orderly transaction.** A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities. It is not a forced transaction (for example, a forced liquidation or distress sale). [GASBS 72, ¶86]

.537 **Present value technique.** A valuation technique used to link future amounts (cash flows or values) to a present amount by employing a discount rate (an application of the income approach). [GASBS 72, ¶86]

.538 **Principal market.** The market with the greatest volume and level of activity for an asset or liability. [GASBS 72, ¶86]

.539 **Principal-to-principal market.** A market in which transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly. [GASBS 72, ¶86]

.540 **Readily determinable fair value.** An equity security has a readily determinable fair value if it meets any of the following conditions:

- a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group, Inc. Restricted stock meets that definition if the restriction terminates within one year.
- b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to in (a).
- c. The fair value of an investment in a mutual fund is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

[GASBS 72, ¶86]

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Measurement

.541 **Relief from royalty technique.** A valuation technique used to value certain intangible assets (for example, trademarks and trade names) based on the premise that the only value that a purchaser of the assets receives is the exemption from paying a royalty for its use. Application of this method usually involves determining the fair value of an intangible asset by quantifying the present value of the stream of market-derived royalty payments that the owner of the intangible asset is exempted from or “relieved” from paying. [GASBS 72, ¶86]

.542 **Risk premium.** Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability; also referred to as a risk adjustment. [GASBS 72, ¶86]

.543 **Transaction costs.** The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that (1) are directly attributable to the disposal of the asset or the transfer of the liability and (2) meet both of the following criteria:

- a. They result directly from and are essential to that transaction.
- b. They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.

[GASBS 72, ¶86]

.544 **Transportation costs.** The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market. [GASBS 72, ¶86]

.545 **Unit of account.** The level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes. [GASBS 72, ¶86]

.546 **Unobservable inputs.** Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability. [GASBS 72, ¶86]

.547 **Valuation technique.** A specific method or combination of methods used to determine the fair value of an asset or liability. [GASBS 72, ¶86]

Fair Value Measurement

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GASB IMPLEMENTATION GUIDES

.701 Scope of This Section

No questions assigned.

.702 General Principles

No questions assigned.

.703 Definition of Fair Value

No questions assigned.

.704 The Asset or Liability

.704-1 Q—How should a restriction on the sale of an asset be considered in determining its fair value?

A—Consideration of a restriction on the sale of an asset depends on whether the restriction is specific to the asset or to the government holding the asset. If the restriction is a characteristic of the asset (for example, the sale of a security in a private offering), the restriction is taken into consideration by market participants and, consequently, should be incorporated into the fair value measurement. If the restriction is a characteristic of the government and is unrelated to the asset (for example, the asset has been pledged as collateral), the restriction should not be reflected in the fair value measurement.

[GASBIG 2016-1, Q4.32]

.705 Unit of Account

.705-1 Q—For conservation purposes, a government acquires land with mineral rights, leases the mineral rights, and receives royalty payments from the lease transaction. How should the land and the mineral rights be classified?

A—There is no accounting requirement to separate the land from its mineral rights. If the government chooses to report the land and mineral rights aggregated in a single unit of account, the land and the mineral rights (as one unit of account) should be classified as a capital asset. If the government separates the land and mineral rights, the land should be reported as a capital asset (the primary purpose of acquiring the land is conservation instead of income or profit). In this circumstance, the mineral rights should

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be evaluated in the context of whether they meet the definition of an investment in this section or should be reported as another type of asset.

[GASBIG 2016-1, Q4.33]

.706 Markets

.706-1 Q—An asset is sold in two different active markets at different prices. A government enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received at the measurement date is \$26, transaction costs in that market are \$3, and the costs to transport the asset to that market are \$2 (therefore, the net amount that would be received from selling that asset in Market A is \$21). In Market B, the price that would be received at the measurement date is \$25, transaction costs in that market are \$1, and the costs to transport the asset to that market are \$2 (therefore, the net amount that would be received from selling that asset in Market B is \$22). How can the government distinguish between the principal market and the most advantageous market for purposes of determining fair value?

A—If Market A is the principal market for the asset (that is, the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transportation costs (\$24).

If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximizes the amount that would be received to sell the asset after taking into account transaction costs and transportation costs (that is, the net amount that would be received in the respective markets).

Because the government would maximize the net amount that would be received for selling the asset in Market B (\$22), the fair value of the asset would be measured using the price in that market (\$25), less transportation costs (\$2), resulting in a fair value measurement of \$23. Although transaction costs are taken into account when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those transaction costs.

[GASBIG 2016-1, Q4.34]

.706-2 Q—If a government identifies its principal market, can the government disregard the price of an orderly transaction in that market and instead use the price from a different market?

Fair Value Measurement

3100.713

A—Generally, no. A government should disregard an identified principal market only if it is unable to access that market.

[GASBIG 2016-1, Q4.35]

.707 Market Participants

No questions assigned.

.708 The Price and Transaction Costs

.708-1 Q—In order to buy or sell an investment, a government pays brokerage fees. The government also pays legal fees to enter into an interest rate swap. Should those fees be reported as part of the price of the investment or the interest rate swap?

A—No, those fees are transaction costs incurred to buy or sell the investment and the interest rate swap. The fees are related to the period in which the cost is incurred and, therefore, if separable, should be treated as a period expense or expenditure outflow of short-term financial resources.

[GASBIG 2016-1, Q4.49, as amended by GASBS XX, ¶23]

.709 Valuation Techniques and Approaches

No questions assigned.

.710 Valuation Techniques

No questions assigned.

.711 Valuation Approaches

No questions assigned.

.712 Market Approach

No questions assigned.

.713 Cost Approach

No questions assigned.

3100.714

Measurement

.714 Income Approach

No questions assigned.

.715 Inputs to Valuation Techniques

No questions assigned.

.716 Basic Principles

No questions assigned.

.717 Inputs Based on Bid and Ask Prices

No questions assigned.

.718 Fair Value Hierarchy

No questions assigned.

.719 Level 1 Inputs

No questions assigned.

.720 Level 2 Inputs

No questions assigned.

.721 Level 3 Inputs

No questions assigned.

.722 Measuring Fair Value If the Volume or Level of Market Activity for an Asset or a Liability Has Significantly Decreased

No questions assigned.

.723 Identifying Transactions That Are Not Orderly

No questions assigned.

.724 Using Quoted Prices Provided by Third Parties

No questions assigned.

Fair Value Measurement

3100.731

.725 Measurement Principles

No questions assigned.

.726 Nonfinancial Assets

No questions assigned.

.727 Highest and Best Use of Nonfinancial Assets

No questions assigned.

.728 Liabilities

No questions assigned.

.729 Basic Principles

No questions assigned.

.730 Liabilities Held by Other Parties as Assets

.730-1 Q—How should a government address the credit quality for an interest rate swap that is in a liability position?

A—Derivative instruments, including interest rate swaps, should be measured at fair value, as required by Section D40. Interest rate swaps can be in either an asset or a liability position at a given measurement date. When a government holds an interest rate swap that is in a liability position, the requirements for measuring fair value of a liability apply to the measurement of that interest rate swap liability. Paragraph .159 of this section requires a government to consider the nonperformance risk when measuring the fair value of a liability. Therefore, when measuring the fair value of an interest rate swap that is in a liability position, a government should consider the effect of the government's own credit quality (for example, its credit standing) and any other factors that might affect the likelihood that the obligation will or will not be fulfilled.

[GASBIG 2016-1, Q4.46]

.731 Nonperformance Risk

No questions assigned.

3100.732

Measurement

.732 Restrictions Preventing the Transfer of a Liability

No questions assigned.

.733 Disclosures

.733-1 Q—Are cash equivalents subject to the fair value disclosure requirements of this section?

A—Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, cash equivalents are measured at other than fair value (including amortized cost) and, consequently, are not subject to the fair value disclosure requirements of this section. Specific exceptions to fair value measurement for some investments are described in Section I50. Examples of such investments include certain money market investments and nonparticipating interest-earning investment contracts, such as certain nonnegotiable certificates of deposit (CDs). If a cash equivalent is measured at fair value, the fair value disclosure requirements of this section apply.

[GASBIG 2016-1, Q4.3]

.733-2 Q—Most CDs are characterized in paragraph .121 of Section I50 as nonparticipating interest-earning investment contracts. What disclosure requirements apply to nonparticipating interest-earning investment contracts?

A—A nonparticipating interest-earning investment contract is not negotiable and has redemption terms that do not consider market rates. That form of CD is a type of investment that is a deposit. The required disclosures for deposits, such as those about custodial credit risk and deposit policies (paragraphs .107 and .109 of Section C20, “Cash Deposits with Financial Institutions,” respectively), should be made.

[GASBIG 2016-1, Q4.5]

.734 Additional Disclosures for Fair Value Measurements of Investments in Certain Entities That Calculate NAV per Share (or Its Equivalent)

No questions assigned.