SUBJECT:

Accounting Principles

PURPOSE:

To interpret basic generally accepted accounting principles for counties.

PRINCIPLES:

Basic principles of accounting and financial reporting are based on those set forth in the Governmental Accounting Standards Board's (GASB) *Codification of Accounting and Financial Reporting Standards* (COFARS). COFARS requires Minnesota counties to account and report in conformity with these principles, except that the annual report required is not as extensive as the Comprehensive Annual Financial Report (CAFR). Most of these principles are restated in detail in other portions of this section which deal with specific issues.

1. A county accounting system must make it possible to:

    a. Present fairly and with full disclosure the financial position and results of financial operations of the funds of the county in conformity with generally accepted accounting principles.

    b. Determine and demonstrate compliance with finance-related legal and contractual provisions.

    c. Demonstrate compliance with state and federal grants and regulations.

2. A county accounting system must be organized and operated on a fund basis with specific types of funds to be used (see Fund Accounting procedures, Section 3220). Fund financial statements should be used to report detailed information about the primary government and its blended component units. The focus of governmental and proprietary fund financial statements is on the major funds.

Counties 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. Funds accounted for in the financial records may be combined for financial statement purposes.

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

4. Capital assets should be reported at historical or estimated 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 estimated fair value at the time of acquisition, plus ancillary charges, if any.

   Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach. Inexhaustible assets, such as land and land improvements, should not be depreciated. Depreciation expense should be reported in the government-wide statement of activities; the proprietary fund statement of revenues, expenses, and changes in fund net assets; and the statement of changes in fiduciary net assets.

5. 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 assets and in the government-wide statement of net assets. Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net assets. All other unmatured general long-term liabilities of the county should not be reported in the governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets.

   A distinction should be made between general long-term liabilities that relate to capital assets and those that do not. The net assets (equity section) in the government-wide statement of net assets reports capital assets net of related debt.

6. The government-wide statement of net assets and statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, assets, and liabilities resulting from nonexchange transactions should be recognized in accordance with GASB Statements 24 and 33. (See Section 3240.)

7. In fund financial statements, the modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results. The conversion from cash accounting to accrual accounting for year-end reporting is mandatory. However, all counties may use an accrual accounting system on an ongoing basis, but it is not generally recommended.

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

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

   c. Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain post-employment health care plans.

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

8. An annual budget should be adopted by every county.

   a. The accounting system should provide the basis for appropriate budgetary control.

   b. Budgetary comparisons should be included in required supplementary information for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule should present: (1) the original budget; (2) the final appropriated budgets for the year; and (3) the actual inflows, outflows, and balances stated on the county's budgetary basis.

   Written policies and procedures need to be adopted to define the budget practices of the county. The policies should include the basis for the budget (that is, cash, modified accrual, accrual, or other). The procedures for maintaining these budgetary standards are outlined in Sections 3410 and 3420 entitled *Minimum Budgeting and Suggested Budgeting*.

9. Interfund transfers should be classified separately from fund revenues and expenditures or expenses in the basic financial statements. Proceeds from long-term debt issues should be classified separately from revenues and expenditures in the governmental fund financial statements.

   a. Governmental fund revenues should be classified by fund and source.

   b. Governmental fund expenditures should be classified by fund, department, program, and service, where applicable, 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.

   d. At a minimum, the statement of activities should present: (1) activities accounted for in governmental funds by function to coincide with the level of detail required in the governmental fund statement of revenues, expenditures, and changes in fund balance; and (2) activities accounted for in enterprise funds by different identifiable activities.

   The Uniform Chart of Accounts will accommodate all of the above accounting principles.

10. Common terminology and classifications should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

    It is highly recommended that counties follow the Uniform Chart of Accounts. By adhering to the terminology and classification within the Uniform Chart of Accounts, a common basis will be developed within the county as well as between counties.

11. 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.

12. Required annual financial reporting is:

    a. General purpose external annual financial reports should be prepared and published. They should include, at a minimum:

       1) Management's discussion and analysis (MD&A).

       2) Basic financial statements. The basic financial statements include:

          - Government-wide financial statements
          - Fund financial statements
          - Notes to the financial statements

       3) Required supplementary information other than MD&A.

       Reporting requirements are discussed in detail in Sections 3310 and 3320 of this manual. Example financial statements under these standards are presented in Section 4330 of this manual.

    b. A comprehensive annual financial report may be prepared and published covering all activities of the primary government (including blended component units) and providing an overview of all discretely presented component units of the county--including introductory section, MD&A, basic financial statements, required supplementary financial statements other than MD&A, combining and individual fund statements, schedules, narrative explanations, and statistical section.

13. The financial reporting entity consists of: (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the county's basic financial statements to be misleading or incomplete. The county's government-wide financial statements should display information about the reporting entity 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 county's fund financial statements should present the primary government's (including 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 assets and changes in fiduciary net assets.

SUBJECT:

Sources of Generally Accepted Accounting Principles

PURPOSE:

To identify the sources for generally accepted accounting principles to be applied by counties.

PRINCIPLES:

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

1. GASB - Governmental Accounting Standards Board

2. FASB - Financial Accounting Standards Board

3. AICPA - American Institute of Certified Public Accountants

AICPA's Statement on Auditing Standards (SAS) No. 69 promulgates the new GAAP hierarchy for state and local governments. The new hierarchy replaces the one which has been in effect since the establishment of GASB in 1984.

The GAAP hierarchy, as prescribed by SAS No. 69, has five categories of sources of accounting principles:

1. GASB Statements and Interpretations, AICPA, and FASB pronouncements specifically made applicable to state and local governmental entities by GASB Statements and Interpretations.

2. GASB Technical Bulletins and, if specifically made applicable to state and local governmental entities by the AICPA and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.

3. AICPA Accounting Standards Executive Committee Practice Bulletins, if specifically made applicable to state and local governmental entities and cleared by the GASB, and GASB Emerging Issues Task Force Consensus Positions.

4. Implementation guides ("Qs and As") published by the GASB and practices that are widely recognized and prevalent in state and local governments.

5. Other sources: Concept Statements, pronouncements of the FASB not otherwise applicable, textbooks, and articles. Also Audit and Accounting Guides/Statement of Position (if specific to government, but not cleared by GASB).

In the absence of established pronouncements, counties may consider other accounting literature. Other accounting literature includes, for example, GASB Concept Statements; pronouncements establishing accounting principles for nongovernmental entities when not specifically made applicable to state and local governments; Accounting Principal Board (APB) Statements; FASB Concepts Statements; AICPA Issues Papers; International Accounting Standards Committee (IASC) Statements; pronouncements of other professional associations or regulatory agencies; AICPA *Technical Practice Aids;* and accounting textbooks, handbooks, and articles.

GAAP for Proprietary Activities

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* provides additional guidance for establishing a GAAP hierarchy for proprietary activities.

Counties using proprietary accounting for its enterprise and internal service funds should apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, **unless** those pronouncements conflict with or contradict GASB pronouncements:

- FASB Statements and Interpretations;
- APB Opinions; and
- Accounting Research Bulletins (ARBs).

In addition, a proprietary activity may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

A proprietary activity should apply all or none of the FASB pronouncements issued after November 30, 1989. The same application of FASB pronouncements is encouraged to be used for all proprietary activities, including component units, in the general purpose financial reports of the financial reporting entity. The provisions of the Statement are effective for annual financial statements for fiscal years beginning after December 15, 1993. (Refer to GASB Statement 20 for additional details.)

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SUBJECT:

Fund Accounting

PRINCIPLE:

The legal and accounting requirements of county government require that a number of separate accounting entities be established.

DEFINITION:

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

TYPE OF FUNDS:

Governmental Funds

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

1. General Fund--to account for all financial resources, except those required to be accounted for in another fund.

2. Special Revenue Funds--to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes. The general fund of a blended component unit should be reported as a special revenue fund.

3. Debt Service Funds--to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

4. Capital Project Funds--to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or by trust funds for individuals, private organizations, or other governments).

5. Permanent Funds--to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the county's programs; that is, for the benefit of the county or its citizenry.

Proprietary Funds

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

1. Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported in enterprise funds if any one of the following criteria is met.

   a. The activity is financed with debt that is secured *solely* by a pledge of net revenues from fees and charges of the activity.

   b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

   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).

2. Internal Service Funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the county and its component units, or to other governments, on a cost-reimbursement basis. Internal Service Funds should be used only if the county is the predominant participant in the activity, for example, a self-insurance fund. Otherwise, the activity should be reported in an enterprise fund.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and, therefore, cannot be used to support the county's own programs. The fiduciary fund category includes investment trust funds, private purpose trust funds, and agency funds.

1. Investment Trust Funds--to account for specific investments held for others and the external portion of investment pools reported by the county.

2. Private Purpose Trust Funds--to account for all other trust arrangements for which principal and income benefits individuals, private organizations, or other governments.

3. Agency Funds--to account for resources held in a custodial capacity, typically involving only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

NUMBER OF FUNDS:

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

Each fund must be accounted for in a separate self-balancing set of accounts for its assets, liabilities, equity, revenues, expenditures 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 and liabilities.

INTERFUND TRANSACTIONS:

Activity between funds of the county, including its blended component units, are divided into two broad categories: reciprocal and nonreciprocal. Reciprocal interfund activity comprises interfund loans and interfund services provided and used. Nonreciprocal interfund activity comprises interfund transfers and interfund reimbursements.

1. Interfund loans are amounts provided between funds and blended component units of the county with a requirement for repayment. Interfund loans are reported as assets in the loaning fund and liabilities in the borrowing fund. Interfund loans do not impact the operating statement.

2. Interfund services provided and used are sales and purchases of goods and services between funds and blended component units of the county for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in the fund providing the service and expenditures or expenses in the fund using the service.

3. Interfund transfers are flows of assets (such as cash or goods) between funds and blended component units of the county without equivalent flows of assets in return and without a requirement for repayment. Interfund transfers should be distinguished from revenues, expenditures, or expenses in financial statements. Transfers should be reported in the other financing sources (uses) section in the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the contributions and transfers section in the statement of revenues, expenses, and changes in fund net assets (proprietary funds). Interfund transfers thus affect the results of operations in both governmental and proprietary funds.

4. Interfund reimbursements are repayments from the funds or blended component units of the county responsible for particular expenditures or expenses to the funds or blended component units of the county that initially paid for them. This type of transaction should be recorded as an expenditure or expense (as appropriate) in the reimbursing fund and as a reduction of the expenditure or expense in the fund that is reimbursed. An example of this transaction would be an expenditure properly chargeable to a special revenue fund which was initially made from the general fund and which is subsequently reimbursed.

LONG-TERM DEBT PROCEEDS:

Under the accrual basis of accounting used to report the operations and financial position of the government in the government-wide financial statements and the proprietary and fiduciary funds in the fund financial statements, proceeds of long-term debt increase the debt payable liability account. Under the modified accrual basis of accounting used for the fund financial statements of governmental funds, debt proceeds will be reported in the operating statement of the recipient fund as "bond issue proceeds" or "proceeds from long-term notes." In those fund financial statements the liabilities are not reported in the funds.

BUDGETING ASPECTS:

In fund accounting, much significance is attached to the budget. The budget is appropriate for managing and reporting on governmental operations. If the objectives of government are to provide services while adhering to legal requirements, then the budget is the financial plan embodied in the law introduced and enacted in the same manner as any other ordinance or statute. In fund accounting, the budget is the goal. It is management's plan for securing and allocating resources. Comparing the operating results with the budget is a way of demonstrating accountability and management performance.

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SUBJECT:

Basis of Accounting and Measurement Focus

PRINCIPLE:

The government-wide statement of net assets and statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. In fund financial statements, the modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results. The measurement focus for governmental funds is the current financial resources.

DEFINITION:

"Basis of accounting" refers to *when* revenues, expenditures, expenses, and transfers--and the related assets and liabilities--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 expenditures are being measured rather than on whether the cash or accrual basis is used.

"Measurement focus" describes the types of transactions and events that are reported in a fund's operating statement. Under the *economic resources* measurement focus, the concern is measuring all transactions or events that increase or decrease net assets. The *current financial resources* measurement focus is concerned with measuring transactions and events that will increase or decrease resources available for current spending.

PROCEDURES:

Accrual Basis Reporting in Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions should be recognized in accordance with the requirements for nonexchange transactions, Section 3240 of this manual.

Modified Accrual Basis in Governmental Fund Financial Statements

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 financial 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.

Revenue Recognition

Revenues and other governmental fund financial resource increments 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.

Revenues and other increases in governmental fund financial resources that usually can and should be accrued include property taxes, regularly billed charges for services, most grants from other governments, and interfund transfers and other transactions. Service-type special assessment revenues should be treated like user fees.

Interest and dividend income should be recognized on the modified accrual basis. Changes in the fair value of investments should be recognized as revenue in the governmental fund statement of revenues, expenditures, and changes in fund balance at the end of each year. Such changes may be identified separately as an element of investment income, captioned "net increase (decrease) in the fair value of investments." Realized gains and losses should not be displayed separately from the net increase (decrease) in the fair value of investments in the financial statements.

Recreation fees, inspection charges, parking fees, and the vast multitude of miscellaneous receipts are best recognized when cash is received.

Section 3240 provides guidance on the recognition of revenues arising from nonexchange transactions involving financial and capital resources, including property taxes, 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.

Expenditure Recognition

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.

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), and

b. General long-term liabilities of the government.

With the exception of long-term debt, counties should accrue a governmental fund liability and expenditure in the period in which the government incurs the liability. Governmental fund liabilities 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.

The major exception to the general rule of expenditure accrual relates to unmatured principal and interest on long-term debt. Governmental fund liabilities and expenditures for debt service on general long-term debt, including capital leases, generally should be recognized *when due*--that is, to the extent that portions of the debt mature during the reporting period.

Section 3240 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.

Accrual Basis in Proprietary Fund Statements

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

Accrual Basis in Fiduciary Fund Statements

Financial statements of fiduciary funds should be reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

SUMMARY

The following table summarizes the measurement focus and basis of accounting applied to the different fund types:

Fund Category	Fund Type	Measurement Focus		Basis of Accounting	
		Economic Resources	Current Financial Resources	Accrual	Modified Accrual
Governmental Funds	General		X		X
	Special Revenue		X		X
	Debt Service		X		X
	Capital Projects		X		X
	Permanent		X		X
Proprietary Funds	Enterprise	X		X	
	Internal Service	X		X	
Fiduciary Funds	Investment Trust	X		X	
	Private-Purpose Trust	X		X	
	Pension (and other employee benefit) Trust	X		X	
	Agency			X	

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SUBJECT:

Nonexchange Transactions

DEFINITION:

In a nonexchange transaction, a government (including the federal government, as a provider) *either* gives value (benefit) to another party without directly receiving equal value in exchange *or* receives value (benefit) from another party without directly giving equal value in exchange. There are four classes of nonexchange transactions based on their principal characteristics.

1. Derived tax revenues result from assessments imposed by governments on exchange transactions--like sales taxes. Income tax is also a derived tax revenue based on corporate or personal income. The principal characteristics of derived tax revenues are the assessing government imposes the tax on the provider and it is based on an exchange transaction--such as income taxes imposed on the exchange of employee services for wages. Most counties do not have derived tax revenues.

2. Imposed nonexchange revenues result from assessments by governments on nongovernmental entities, including individuals, other than derived tax revenues. Examples of imposed nonexchange revenues are property taxes, fines and penalties, and property forfeitures. The principal characteristic of imposed nonexchange revenues is that the provision of resources is imposed by the government on an act committed or omitted by the provider that is not an exchange transaction. For example, a speeding ticket is *imposed* on a driver for speeding--this is an imposed nonexchange transaction imposed by the government on an act committed by the provider of the revenue.

3. Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose--like many grants. The principal characteristics of government-mandated nonexchange transactions are the provider government mandates that the recipient government perform a particular program or facilitate its performance by another entity, and there are specific time and eligibility requirements that must be met.

4. Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly between two or more parties--like certain grants and donations. The principal characteristics of voluntary nonexchange transactions are that they are not imposed on the provider or the recipient and that there are eligibility requirements that must be met.

PROCEDURES:

All standards in this section apply whether the accrual basis or the modified accrual basis of accounting is required, except for revenue recognition standards. For revenue recognition, the standards apply when the accrual basis of accounting is required and modifications to the standards for modified accrual basis of accounting are included in a separate section at the end.

Time Requirements and Purpose Restrictions

Enabling legislation or providers of resources in nonexchange transactions frequently stipulate time requirements, purpose restrictions, or both. Time requirements specify the periods when resources are required to be used or when use may begin. Purpose restrictions specify the purpose or purposes for which the resources are required to be used.

Time requirements affect the *timing of recognition* of nonexchange transactions. Also, the effect on the timing of recognition is different, depending on whether a nonexchange transaction is: (a) an imposed nonexchange revenue transaction, or (b) a government-mandated or voluntary nonexchange transaction.

In contrast to time requirements, purpose restrictions do not affect the timing of recognition for any class of nonexchange transactions. Rather, recipients of resources with purpose restrictions should report resulting net assets (or equity or fund balance, as appropriate) as restricted until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact.

Reimbursements

Governments (including the federal government) frequently engage in award programs commonly referred to as "reimbursement-type" or "expenditure-driven" grant programs. These programs may be either government-mandated or voluntary nonexchange transactions, depending on their characteristics. In either case, the provider stipulates the recipient cannot qualify for resources without *first* incurring allowable costs under the provider's program. That kind of stipulation is *not* a purpose restriction, but is considered an *eligibility requirement* and affects the timing of recognition. That is, there is no award--no revenue, expense, asset, or liability--until the recipient has met the provider's requirements by incurring costs in accordance with the provider's program.

Derived Tax Revenue Transactions

Counties do not usually have derived tax revenues but, if they do, they should recognize *assets* from derived tax revenues in the period when the exchange transaction takes place or when the resources are received, whichever is first. *Revenues* should be recognized in the same period that the assets are recognized, provided the underlying exchange transaction has occurred.

Imposed Nonexchange Revenue Transactions

Counties should recognize *assets* from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever is first. For property taxes, the date when an enforceable legal claim to taxable property arises is the first Monday in January (Minn. Stat. § 272.31).

Counties should recognize *revenues* from property taxes *in the period for which the taxes are levied*, even if the enforceable legal claim arises or the due date for payment occurs in a different period. All other imposed nonexchange revenues should be recognized in the same period the assets are recognized, unless the enabling legislation includes time requirements.

Government-Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

Providers of resources in government-mandated or voluntary nonexchange transactions frequently establish eligibility requirements. Eligibility requirements are conditions established by enabling legislation or the provider that are required to be met before a transaction can occur. That is, until those requirements have been met, the provider does not have a liability, the recipient does not have a receivable, and the recognition of expenses or revenues for resources transmitted in advance should be deferred.

Eligibility requirements comprise one or more of the following:

a. *Required characteristics of recipients*; for example, the recipient must be a county.

b. *Time requirements*, such as the period when the resources are required to be used, disbursed, or consumed, or when use is first permitted or how long the resources are to remain intact.

c. *Reimbursements*, such as expenditure-driven grants.

d. *Contingencies*, where the provider's offer of resources is contingent on a specified action of the recipient and that action has occurred.

Providers should recognize liabilities and expenses from government-mandated or voluntary nonexchange transactions, and recipients should recognize receivables and revenues when all applicable eligibility requirements are met. Resources transmitted before the eligibility requirements are met should be reported as advances by the provider and as deferred revenues by recipients.

Revenue Recognition in Governmental Fund Statements

Financial statements of governmental funds should be presented using the *current financial resources measurement focus* and the *modified accrual basis of accounting*, as the terms are discussed in Section 3230 of this manual. Revenues from nonexchange transactions should be recognized "in the accounting period when they become available and measurable."

When the modified accrual basis of accounting is used, revenues resulting from nonexchange transactions should be recognized as follows:

1. Derived tax revenues. Recipients should recognize revenues in the period when the underlying exchange transaction has occurred *and* the resources are available.

2. Imposed nonexchange revenues--property taxes. When a property tax assessment is made, it is to finance the budget of a particular period, and the revenue produced from any property tax assessment should be recognized in the fiscal period for which it was levied, provided the "available" criteria are met. *Available* for property taxes means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days.

3. Imposed nonexchange revenues--other than property taxes. Recipients should recognize revenues in the period when an enforceable legal claim has arisen and the resources are available.

4. Government-mandated nonexchange transactions and voluntary nonexchange transactions. Recipients should recognize revenue in the period when all applicable eligibility requirements have been met *and* the resources are available.

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SUBJECT:

Capital Assets and Depreciation on Capital Assets

PRINCIPLES:

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

Capital assets should be reported at historical or estimated 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 estimated fair value at the time of acquisition plus ancillary charges, if any.

Capital assets should be depreciated over their estimated useful lives, unless they are either inexhaustible or are infrastructure assets using the modified approach. Inexhaustible assets, such as land and land improvements, should not be depreciated. Depreciation expense should be reported in the government-wide statement of activities; the proprietary fund statement of revenues, expenses, and changes in fund net assets; and the statement of changes in fiduciary net assets.

DEFINITION:

The term *capital assets* includes land, land improvements, 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 operations and that have initial useful lives extending beyond a single reporting period. *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 and streets, bridges, lighting systems, traffic signals, storm drains, sidewalks, and other. Buildings generally will not be considered infrastructure assets.

PROCEDURES:

Reporting Capital Assets in Government-Wide Financial Statements

Capital assets that are being or have been depreciated should be reported net of accumulated depreciation in the statement of net assets. Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach, should be reported separately.

Depreciation expense should be measured by allocating the net cost of depreciable assets over their estimated useful lives in a systematic and rational manner. Depreciation expense should be reported in the statement of activities as follows:

1. Depreciation expense for capital assets that can specifically be identified with an expense function should be included in its direct expenses. Depreciation expense for “shared” capital assets should be ratably included in the direct expenses of the appropriate functions.

2. Depreciation expense for capital assets, such as a courthouse that essentially serves all functions, is not required to be included in the *direct* expenses of the various functions. This depreciation may be included as a separate line in the statement of activities or as part of the “general government” function. In either case, the depreciation can be allocated with other indirect expenses in a separate column of the statement. If a county 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.

3. 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 that county associates the capital outlays for, maintenance of the infrastructure assets, or as a separate line in the statement of activities.

Reporting General Capital Assets

General capital assets are capital assets of the county 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 of governmental fund 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 assets.

Reporting Capital Assets in Proprietary Fund Financial Statements

Capital assets of proprietary funds should be reported in the government-wide statement of net assets and in the proprietary fund statement of net assets. Capital assets of proprietary funds should be capitalized and reported as discussed in the principles above. The accounting policy with respect to capitalization of interest costs incurred during construction should be disclosed and consistently applied.

Reporting Capital Assets in Fiduciary Fund Financial Statements

Capital assets of fiduciary funds and component units that are fiduciary in nature should be reported in the statement of fiduciary fund net assets. They should be capitalized and reported as discussed in the principles above.

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SUBJECT:

Accounting for Long-Term Liabilities

PRINCIPLE:

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 assets. Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net assets. All other unmatured general long-term liabilities of the governmental fund 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 assets.

The general long-term debt of a county is secured by its general credit and taxing powers rather than by its assets 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 liabilities 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 and accountability functions.

A distinction should be made between general long-term liabilities that relate to capital assets and those that do not. The net assets (equity section) in the government-wide statement of net assets reports capital assets net of related debt.

DEFINITION:

General long-term debt is not limited to liabilities arising from debt issuances, but may also include noncurrent liabilities on capital and operating leases, compensated absences, claims and judgments, pensions, special termination benefits, landfill closure and postclosure care, and other commitments that are not current liabilities properly reported in governmental funds.

PROCEDURES:

Modified Accrual Recognition of Liabilities and Expenditures

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:

1. Governmental fund liabilities (claims against current resources), and

2. General long-term liabilities of the government.

Reporting Expenditures for Governmental Fund Liabilities

Matured liabilities should be reported as governmental fund liabilities. Matured liabilities include: (a) liabilities that are normally due and payable in full when incurred, and (b) the matured portion of general long-term indebtedness (the portion that has come due for payment).

The major exception to the general rule of expenditure accrual relates to unmatured principal and interest on long-term debt. Governmental fund liabilities and expenditures for debt service on general long-term debt, including capital leases, generally should be recognized *when due*--that is, to the extent that portions of long-term debt mature during a reporting period.

Accrual Recognition of 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 assets. Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net assets. Under the accrual basis of accounting used to report the operations and financial position of the government in the government-wide financial statements and the proprietary and fiduciary funds in the fund financial statements, proceeds of long-term debt increase the debt payable liability account and payments on long-term debt reduce the liability account.