



## 80.20

# Generally Accepted Accounting Principles

### 80.20.10

July 1, 2001

## This state adopts Generally Accepted Accounting Principles (GAAP)

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. GAAP establishes appropriate measurement and classification criteria for financial reporting. Adherence to GAAP provides a reasonable degree of comparability among the financial reports of state and local governmental units. In accordance with [RCW 43.88.037](#), the Office of Financial Management adopts GAAP as applicable to state governments.

### 80.20.20

June 1, 2013

## What constitutes GAAP?

The hierarchy of GAAP governs what constitutes GAAP for state governments, including government-owned colleges and universities and health care providers. It details the priority sequence of pronouncements that the state should look to for accounting and reporting guidance. The Governmental Accounting Standards Board (GASB) established the following hierarchy for state and local governments:

1. **GASB Statements and Interpretations** (officially established accounting principles).
2. **GASB Technical Bulletins** and, if specifically made applicable to state and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared by the GASB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.
3. **AICPA Practice Bulletins** if specifically made applicable to state and local governmental entities and cleared by the GASB. Also, consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities.
4. **Implementation Guides (Q&A's)** published by the GASB staff, as well as practices that are widely recognized and prevalent in state and local government.

If the accounting treatment for a transaction or event is not specified in the hierarchy noted above, then other accounting literature may be considered including Financial Accounting Standards Board concepts statements, international financial reporting standards, and pronouncements of other professional associations or regulatory agencies.

**80.20.30**

July 1, 2001

**Governmental GAAP requires fund accounting**

Among the basic principles of governmental GAAP is fund accounting. Because of the diverse nature of governmental operations and the numerous legal and fiscal constraints under which those operations must be conducted, it is impossible to record all governmental financial transactions and balances in a single accounting entity. Therefore, unlike a private business which is accounted for as a single entity, a governmental unit is accounted for through separate funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts.

**80.20.35**

July 1, 2010

**Fund categories used in governmental accounting**

Funds are categorized by type to indicate both the sources of the fund's financial resources and the nature of activities financed. There are three broad categories of funds used in governmental accounting.

80.20.35.a

**Governmental funds** are used to account for most typical governmental functions. The acquisition, use, and balances of the state's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds), are accounted for through governmental funds. There are five types of governmental funds:

- General Fund - used to account for all financial resources of the state not required to be accounted for in some other fund. Includes both the Basic Account and Administrative Accounts.
- Special Revenue Funds - used 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 restricted or committed to expenditures for specified purposes other than debt service or capital projects.
- Debt Service Funds - used to account for the accumulation of resources that are restricted, committed, or assigned for, and the payment of, general long-term debt principal and interest.

- Capital Projects Funds - used to account for financial resources that are restricted, committed, or assigned to expenditures for the acquisition and construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).
- Permanent Funds - used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for the benefit of the state or its citizenry.

80.20.35.b

**Proprietary funds** are used to account for a government's ongoing organizations and activities that are similar to businesses found in the private sector. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis. There are two types of proprietary funds:

- Enterprise Funds - used to account for any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds, in the context of the activity's *principal revenue sources*, if any one of the following criteria is met:
  - a) The activity is financed with debt that is secured solely by pledge of the 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, or
  - 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).
- Internal Service Funds - used to account for the provision of goods or services by one department or agency to other departments or agencies of the state, or to other governmental units, on a cost-reimbursement basis. Internal service funds should only be used if the state is the predominant participant in the activity.

80.20.35.c

**Fiduciary funds** are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units. There are four types of fiduciary funds:

- Pension (and other employee benefit) Trust Funds - used to report resources that are required to be held in trust by the state for the

members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.

- Investment Trust Funds - used to report the external portion of the Local Government Investment Pool, which is reported by the state as the sponsoring government.
- Private-Purpose Trust Funds - used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The resources held under these arrangements are not available to support the government's own programs.
- Agency Funds - used to account for resources held by the state in a purely custodial capacity for other governments, private organizations or individuals.

**80.20.40**

July 1, 2001

**Financial reporting requirements**

80.20.40.a

**Interim reports.** In order to facilitate management control, legislative oversight or other purposes, appropriate interim financial statements and reports of financial position, operating results and other pertinent information should be prepared.

80.20.40.b

**Comprehensive annual financial report.** A comprehensive annual financial report (CAFR) should be prepared covering all activities of the primary government and providing an overview of its discretely presented component units. It should contain the following sections:

1. **Introductory section.** The introductory section includes the table of contents and letter of transmittal.
2. **Financial section.** The financial section includes:
  - The independent auditor's report;
  - Management's discussion and analysis (MD&A). Refer to Subsection 80.20.80;
  - Basic financial statements:
    - Government-wide financial statements. Refer to Subsection 80.20.82;
    - Fund financial statements. Refer to Subsection 80.20.85; and
    - Notes to the financial statements.
  - Required supplementary information (RSI), other than MD&A; and
  - Combining and individual fund statements and schedules.

3. **Statistical section.** The statistical section includes additional financial, economic, and demographic information.

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**80.20.45**

July 1, 2012

## **What is the financial reporting entity?**

The financial reporting entity of the state consists of:

1. **Primary government.** The primary government consists of all funds, agencies, departments, and organizations that make up the legal entity of the state.
2. **Organizations for which the primary government is financially accountable.** Financial accountability exists if a primary government appoints a voting majority of the organization's governing body and is either (1) able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government 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. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, levy taxes or set rates or charges without substantive approval by another government, or issue bonded debt without substantive approval by another government. An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists: (1) The primary government is legally entitled to or can otherwise access the organization's resources; (2) The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; (3) The primary government is obligated in some manner for the debt of the organization.
3. **Other organizations.** Other organizations (including component units, joint ventures, jointly governed organizations, and other stand-alone governments) that do not meet the financial accountability criteria may be included in the reporting entity if the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading.

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**80.20.50**

June 1, 2013

**Measurement focus and basis of accounting**

80.20.50.a

**Measurement focus** is concerned with *what* financial transactions and events will be recognized in the accounting records and reported in the financial statements. Measurement focus is concerned with the inflow and outflow of resources - what is being measured. While there are a number of measurement focuses, the following two are fundamental to current governmental accounting principles:

1. **Flow of economic resources** focus considers all of the assets available to the governmental unit for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded within the fund and depreciation is recorded as a charge to operations.
2. **Flow of current financial resources** focus measures the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period. The emphasis of this focus is on cash and assets that will become cash during or shortly after the current period. Long-term capital assets and long-term obligations are not recorded within a fund under this measurement focus.

80.20.50.b

**Basis of accounting** refers to *when* transactions and events will be recognized in the accounting records and presented in the financial statements. Governmental accounting transactions and events are recognized on either the accrual basis or the modified accrual basis.

1. **Accrual basis** of accounting records revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable.
2. **Modified accrual basis** of accounting recognizes revenues in the period in which they become available and measurable. Revenues are considered available when they will be collected either during the current period or soon enough after the end of the period to pay current year liabilities. Revenues are considered measurable when they are reasonably estimable. Expenditures are generally recognized when the fund liability is incurred, if measurable.

80.20.50.c

Under GAAP, the measurement focus and basis of accounting applied varies with fund type category.

1. **Governmental funds** focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. They employ the flow of current financial resources measurement focus and the modified accrual basis of accounting.
  - Revenues are recognized in the accounting period in which they become measurable and available.
  - Expenditures are generally recognized when incurred, if measurable. Exceptions include unmatured interest on general long-term obligations and compensated absences, which are recognized when due.
  - Assets and liabilities reported on the financial statements are limited to those representing current available resources or requiring expenditure of said resources.
  
2. **Proprietary funds** focus on the determination of net income, the changes in net position (or cost recovery), financial position, and cash flows. They utilize the flow of economic resources measurement focus and the accrual basis of accounting.
  - Revenues are recognized in the period in which they are earned and become measurable.
  - Expenses are recognized in the period incurred.
  - Assets and liabilities reported represent all of the assets available and all of the liabilities outstanding.
  
3. **Fiduciary funds** focus on net position and changes in net position. Trust funds use the flow of economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans. Agency funds also use the accrual basis of accounting, but, since they are custodial in nature and do not involve the measurement of results of operations, they do not use a measurement focus.

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**80.20.60**  
June 1, 2013

## **Accounting for capital assets and long-term obligations**

80.20.60.a

**Capital assets** of the state are accounted for at cost or, if the cost is not practicably determinable, at estimated cost. The cost of a capital asset includes its purchase price or construction cost, as well as the ancillary

charges necessary to place the asset in its intended location and condition for use. Donated capital assets are recorded at their estimated fair value at the time received. Refer to Chapter 30 for the state's policy for capitalizing assets and for estimating the useful lives of those assets.

80.20.60.a.(1) Capital assets used in proprietary and fiduciary funds, where the flow of economic resources is measured, are accounted for in the appropriate fund. Depreciation of capital assets accounted for in a proprietary or fiduciary fund is recorded in the accounting records of that fund.

Proprietary funds report capital assets both in the government-wide and fund financial statements. Capital assets of fiduciary funds are reported only in the Statement of Fiduciary Net Position.

80.20.60.a.(2) General capital assets are capital assets used in the operations of governmental funds where the primary accounting purpose is to reflect the sources and uses of current financial resources. Since general capital assets do not represent financial resources available for expenditure, they are not reported as assets in governmental funds. Rather, they are capitalized and depreciated in the General Capital Assets Subsidiary Account, and reported in the governmental activities column in the government-wide Statement of Net Position.

80.20.60.a.(3) Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach. Depreciation expense should be reported in:

- The Government-wide Statement of Activities,
- The Proprietary Fund Statement of Revenues, Expenditures, and Changes in Fund Net Position, and
- The Statement of Changes in Fiduciary Net Position.

80.20.60.b **Long-term obligations.** Due to the fund accounting requirements of a government's operations, some long-term obligations are accounted for in certain funds (fund long-term obligations) and others are accounted for in the General Long-Term Obligations Subsidiary Account.

80.20.60.b.(1) Long-term obligations associated with and expected to be paid from proprietary and fiduciary funds are accounted for in the appropriate fund. These obligations may be secured by a specific fund asset or revenue or may be backed by the full faith and credit of the state.

Proprietary funds should report long-term obligations both in the government-wide and fund financial statements. Long-term obligations of fiduciary funds are reported only in the Statement of Fiduciary Net Position.

- 80.20.60.b.(2) All long-term obligations that are not accounted for in a proprietary or fiduciary fund are considered general obligations of the state. Since general long-term obligations represent debt that will be met by expending resources other than those considered current and available as of current balance sheet year-end, they should not be reported in governmental funds. Rather, they are reported in the governmental activities column in the government-wide Statement of Net Position.

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**80.20.70**  
July 1, 2001

**GAAP budgetary requirements**

Budgeting is recognized in GAAP as being a critical element of governmental planning, control, and evaluation processes. GAAP budgetary requirements include:

- Budget(s) should be adopted by every government,
- The accounting system should provide the basis for appropriate budgetary control, and
- Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which budgets have been adopted. The budgetary comparison should present both the original and the final appropriated budgets for the period as well as actual inflows, outflows, and balances, stated on the state's budgetary basis.

Governmental funds of the state are budgeted materially in accordance with GAAP. The required budgetary comparisons are presented as required supplementary information.

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**80.20.80**  
July 1, 2001

**Management's Discussion and Analysis**

The state's financial statements are preceded by the Management's Discussion and Analysis (MD&A). The MD&A, which is classified as required supplementary information, is a narrative introduction, overview, and analysis of the state's financial statements. It focuses on the primary government and is objective, easily readable, and based on currently known facts and conditions.

The MD&A introduces the basic financial statements describing the statements and their relationship to one another. With emphasis on the current year, it presents condensed comparative data and an analysis of the overall financial position of the state as well as an analysis of significant

balances and operations of individual funds. The MD&A presents budget variances, significant capital asset (including infrastructure) and debt activity, and other potentially significant matters.

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**80.20.82**

June 1, 2013

**Government-wide financial statements**

The state presents two basic government-wide financial statements: the Statement of Net Position and the Statement of Activities. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide financial statements present information about the overall state. All governmental and business-type activities are included, but fiduciary activities are excluded. Nonfiduciary component units are included.

## 80.20.82.a

**Statement of Net Position.** The purpose of the Statement of Net Position is to display the financial position of the primary government and its component units. Governmental and business-type activities of the primary government are displayed in separate columns with a total column presenting a consolidated total (balances between governmental and business-type activities are eliminated). The statement reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is displayed in three components: 1) net investment in capital assets; 2) restricted; and 3) unrestricted .

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, 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 should be included in this component of net position.

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 in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Assets are reported as restricted when constraints are placed on asset use either externally, by creditors, grantors, contributors, or imposed by law through constitutional provision or enabling legislation.

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 component of net position.

80.20.82.b

**Statement of Activities.** The purpose of a statewide Statement of Activities is to identify the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business type activities, a major program is an identifiable activity.

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**80.20.85**

June 1, 2013

**Fund financial statements**

80.20.85.a

The fund financial statements focus on major individual funds of the state with nonmajor funds aggregated into a single column regardless of fund type. In conjunction with the fund statements, the state presents a summary reconciliation between the fund financial statements and the government-wide financial statements.

At the fund statement level, governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary funds use the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are reported consistent with proprietary funds except for the recognition of certain liabilities of defined benefit pension plans.

80.20.85.b

The state's fund financial statements include:

**Governmental Funds**

- Balance Sheet
- Statement of Revenues, Expenditures, and Changes in Fund Balances

**Proprietary Funds**

- Statement of Fund Net Position
- Statement of Revenues, Expenses, and Changes in Fund Net Position
- Statement of Cash Flows

**Fiduciary Funds**

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position