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Governmental Accounting Standards Series

Statement No. 6 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Special Assessments

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement establishes accounting and financial reporting standards for capital improvements and services financed by special assessments. The special assessment fund type as identified in NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* is eliminated for financial reporting purposes.

Transactions of a service-type special assessment should be reported in the fund type that best reflects the nature of the transactions, usually the general fund, a special revenue fund, or an enterprise fund, giving consideration to the "number of funds" principle. Service-type special assessment revenues should be treated like user fees. Assessment revenues and expenditures (expenses) for which the assessments were levied should be recognized on the same basis of accounting as that normally used for that fund type.

If the government is obligated in some manner to assume payments on special assessment debt in the event of default by the property owners, all transactions related to capital improvements financed by special assessments should be reported in the same fund types and on the same basis as any other capital improvement and financing transactions. The fixed assets constructed or acquired should be reported in the general fixed assets account group or in an enterprise fund, as appropriate.

For financial reporting purposes, a government is obligated in some manner for special assessment debt if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) the government *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.

This Statement also provides guidance for reporting capital improvement assessment projects for which (a) initial financing is provided by existing resources and no debt is issued, (b) the assets constructed or acquired will benefit an enterprise fund, and (c) the government is *not* obligated in any manner for the related debt.

The provisions of this Statement are effective for periods beginning after June 15, 1987.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, and governmental utilities, hospitals, colleges, and universities. Paragraph 26 discusses the applicability of this Statement.

Statement No. 6 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Special Assessments

January 1987

Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

Statement No. 6 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Special Assessments

January 1987

CONTENTS

Paragraph
Numbers

Statement No. 6 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Special Assessments

JANUARY 1987

INTRODUCTION AND BACKGROUND INFORMATION

Scope of Statement

1. This Statement establishes standards of accounting and financial reporting for capital improvements and services financed by special assessments.

Background

2. Some capital improvements or services provided by local governments are intended primarily to benefit a particular property owner or group of property owners rather than the general citizenry. These capital improvements or services frequently are undertaken at the property owners' initiative; that is, the project is authorized by a special assessment petition signed by a majority of the property owners who will benefit from the proposed project. The local government then acts on behalf of those property owners by organizing a special assessment district, performing the project (often using private contractors), overseeing and approving the progress and completion of the project, providing or arranging for financing, and collecting the assessments to pay any debt incurred to finance the project.

3. The costs of providing the capital improvements or services are charged either partially or totally to the property owners who receive the benefit. Sometimes the local government assumes a portion of the cost of an improvement, either by incurring debt or by using other available resources, in recognition of a "public benefit" that also results from the project.

Service Assessments

4. Service-type special assessment projects are for operating activities and do not result in the purchase or construction of fixed assets. Often the assessments are for services that are normally provided to the public as general governmental functions and that would otherwise be financed by the general fund or a special revenue fund. Those services include street lighting, street cleaning, and snow plowing. Financing for these routine

services typically comes from general revenues. However, when routine services are extended to property owners outside the normal service area of the government or are provided at a higher level or at more frequent intervals than for the general public, special assessments are sometimes levied. Only the affected property owners are charged for the additional services.

Capital Improvement Assessments

5. More often than not, special assessment projects are capital in nature and enhance the utility, accessibility, or aesthetic value of the affected properties. Generally, the projects also provide improvements or additions to a government's general fixed assets or infrastructure. Typical special assessment capital improvements are streets, sidewalks, parking facilities, and curbs and gutters. Sometimes the improvements provide capital assets that become an integral part of a local government's enterprise activities, as in the case of water or sewer main construction.

6. Capital improvement special assessment projects have two distinct and functionally different phases. The initial phase consists of financing and constructing the project. In most cases, this phase is relatively short in duration—sometimes only a few months, and rarely more than a year or two. The second phase, which may start at the same time as, during, or after the initial phase, consists of collecting the assessment principal and interest levied against the benefited properties and repaying the cost of financing the construction. The second phase is usually substantially longer than the first.

7. The cost of a capital improvement special assessment project is generally greater than the amount the affected property owners can pay in one year. To finance the project, the benefited property owners in effect "mortgage" their properties; that is, the government attaches a lien on the property and allows the property owners to pay their pro rata share of the improvement costs in installments. The government, in turn, typically issues long-term debt to finance the project. Installment due dates for property owners are often based on the repayment schedule for the related debt; the installments are customarily due shortly before the related debt service payments will be made. The lien attaches to each property when the assessment is levied and is released only after the assessment is paid in full. Ordinarily, the assessed property owners pay the assessments in installments; however, they may elect to pay the entire assessment at once, or the remaining balance at any time during the life of the assessment.

8. Special assessment debt, for purposes of this Statement, is defined as those long-term obligations, secured by a lien on the assessed properties, for which the primary source of repayment is the assessments levied against the benefiting properties. Frequently, however, the government will be obligated in some manner to provide resources for repayment of special assessment debt in the event of default by the assessed property owners, as discussed in paragraph 16. In addition, it is not uncommon for a local government to finance an improvement entirely with the proceeds of general obligation debt and to levy special assessments against benefiting property owners to provide some of the resources needed to repay that debt. For example, a city could issue general obligation bonds to finance downtown redevelopment to be repaid from special assessments levied against the benefiting merchants, incremental sales tax revenue generated from the renovated business area, and a separate general tax levy.

9. Sometimes a single capital improvement may be financed by several types of debt instruments and financing sources. For example, a comprehensive financing package might include special assessment debt, general obligation debt, grants from other governments, and so forth. It should be noted that while special assessment capital improvements are probably most frequently financed by issuing bonds, other forms of debt such as notes payable and contractor warrants are also commonly used.

Special Assessment Debt

10. The primary source for repayment of special assessment debt is assessments against benefiting property owners. However, because the government is often directly responsible for paying a portion of the project cost, either as a public benefit or as a property owner benefiting from the improvement, general governmental resources repay the portion of the debt related to the government's share of the project cost. Furthermore, to enhance the marketability of the debt, local governments may choose, or may be required, to pledge their full faith and credit as security for the entire special assessment bond issue, including the portion to be paid by assessments against the benefiting property owners. In some instances the government may choose to make some other form of commitment as security for the debt. Even when they have no legal obligation to do so, some local governments, in the interest of protecting their credit reputations, are prepared to assume secondary liability in the event of default by the property owners. On the other hand, it is possible for a government to have no liability for a special assessment debt issue.

11. The extent of a government's legal liability for special assessment debt is generally set forth in the state statutes and varies from state to state. The statutes also vary in the way special assessment debt is included in the calculation of a local government's legal debt limit. Some states require local governments to include the debt in the calculation of legal debt limits; others specifically exclude the issues, even though they may be backed by the full faith and credit of the government.

12. To summarize, the nature and composition of debt associated with special assessment-related capital improvements can vary significantly from one jurisdiction to another. Capital improvements involving special assessments may be financed by debt that is:

a. *General obligation debt* that is not secured by liens on assessed properties but nevertheless will be repaid in part by special assessment collections
b. *Special assessment debt* that is secured by liens on assessed properties and is also backed by the full faith and credit of the government as additional security
c. *Special assessment debt* that is secured by liens on assessed properties and is not backed by the full faith and credit of the government but is, however, fully or partially backed by some other type of general governmental commitment
d. *Special assessment debt* that is secured by liens on assessed properties, is not backed by the full faith and credit of the government, and is not backed by any other type of general governmental commitment; the government is not liable under any circumstance for the repayment of this category of debt, should the property owner default.

In some cases special assessment debt is payable entirely by special assessment collections from the assessed property owners; in other cases the debt may be repaid partly from special assessment collections and partly from the general resources of the government, either because the government is a property owner benefiting from the improvements or because the government has agreed to finance part of the cost of the improvement as a public benefit. The portion of special assessment debt that will be repaid directly with governmental resources is, in essence, a general obligation of the government. If the government owns property that benefits from the improvements financed by special assessment debt as in category d, or if there is a public benefit assessment made against the government, the government is, of course, obligated for the public benefit portion and the amount assessed against its property, even though it has no liability for the remainder of the debt issue.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

13. The special assessment *fund type,* as identified in NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* should not be used in general purpose financial statements (GPFS) to report the construction of public improvements or the provision of services financed by special assessments. Legal requirements, if any, to account for special assessment transactions in accounts or funds separate from other accounts or funds of the government can usually be satisfied by maintaining separate special revenue, capital project, and debt service funds for individual special assessment projects, or by separately identifying special assessment transactions and accounts within the other funds. If that accounting and reporting does not satisfy legal requirements, additional schedules and narrative explanations may be presented in the notes to the GPFS, in the comprehensive annual financial report (CAFR), or in separate special purpose reports, in accordance with GASB *Codification of Governmental Accounting and Financial Reporting Standards,* Section 1200, "Generally Accepted Accounting Principles and Legal Compliance," paragraph .113.

Services Financed by Special Assessments

14. The transactions of a service-type special assessment should be reported in the fund type that best reflects the nature of the transactions, usually the general fund, a special revenue fund, or an enterprise fund, giving consideration to the "number of funds" principle in Codification Section 1100, "Summary Statement of Principles," paragraph .104. Service-type special assessment revenues should be treated like user fees. Both the assessment revenues and the expenditures (expenses) for which the assessments were levied should be recognized on the same basis of accounting as that normally used for that fund type.

Capital Improvements Financed by Special Assessment–Related Debt

15. If the government is obligated in some manner to assume the payment of related debt service in the event of default by the property owners, as discussed in paragraph 16, all transactions related to capital improvements financed by special assessments should be reported in the same manner, and on the same basis of accounting, as any other capital improvement and financing transaction. Transactions of the construction phase of the project should be reported in a capital projects fund or other appropriate fund.

Transactions of the debt service phase should be reported in a debt service fund, if one is required by Codification Section 1300, “Fund Accounting,” paragraph .107. At the time of the levy, special assessments receivable should be recognized and should be offset by deferred revenue; deferred revenue should be reduced as the assessments become measurable and available. (As a practical matter, interest earned on special assessment levies may be accrued when due, rather than when earned, because it approximately offsets the related interest expenditure that is also recognized when due.) The fixed assets constructed or acquired (other than those related to an enterprise fund—see paragraph 23) should be reported in the general fixed asset account group (GFAAG), as set forth in Codification Section 1400, “Fixed Assets,” paragraphs .106-.109, and the outstanding long-term debt should be reported in the general long-term debt account group (GLTDAG), in accordance with the provisions of paragraph 17.

16. The extent of a government’s liability for debt related to a special assessment capital improvement can vary significantly. For example, the government may be primarily liable for the debt, as in the case of a general obligation issue; it may have no liability whatsoever for special assessment debt; or it may be *obligated in some manner* to provide a secondary source of funds for repayment of special assessment debt in the event of default by the assessed property owners. A government is obligated in some manner for special assessment debt if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) the government *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 government is obligated in some manner include:

a. The government is obligated to honor deficiencies to the extent that lien foreclosure proceeds are insufficient.
b. The government is required to establish a reserve, guarantee, or sinking fund with other resources.
c. The government is required to cover delinquencies with other resources until foreclosure proceeds are received.
d. The government must purchase all properties (“sold” for delinquent assessments) that were not sold at public auction.
e. The government *is authorized* to establish a reserve, guarantee, or sinking fund, *and* it establishes such a fund. (If a fund is not established, the considerations in subparagraphs g and h may nevertheless provide evidence that the government is obligated in some manner.)
f. The government *may* establish a separate fund with other resources for the purpose of purchasing or redeeming special assessment debt, *and* it establishes such a fund. (If a

fund is not established, the considerations in subparagraphs g and h may nevertheless provide evidence that the government is obligated in some manner.)

g. The government explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default it *may* cover delinquencies, although it has no legal obligation to do so.

h. Legal decisions within the state or previous actions by the government related to defaults on other special assessment projects make it probable that the government will assume responsibility for the debt in the event of default.

Stated differently, the phrase *obligated in some manner* as used in this Statement is intended to include all situations *other than* those in which (a) the government is *prohibited* (by constitution, charter, statute, ordinance, or contract) from assuming the debt in the event of default by the property owner or (b) the government is not legally liable for assuming the debt and makes no statement, or gives no indication, that it will, or may, honor the debt in the event of default.

17. Debt issued to finance capital projects that will be paid 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 like any other general obligation debt.

b. Special assessment debt for which the government is obligated in some manner as described in paragraph 16 should be reported in the GLTDAG, 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.

   (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 in the GLTDAG like other general obligation debt and classified in accordance with Codification Section 1500, "Long-Term Liabilities," paragraph .105.

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 in subparagraph b(2), above.

18. As discussed in paragraph 16b and e, some governments are authorized, or required, to establish and maintain a special assessment bond reserve, guarantee, or sinking fund to provide cash if the assessed property owners default. If a fund is established, Codification

Section 1300.107 requires those transactions and balances to be reported in a debt service fund.

Capital Improvements Financed by Special Assessment Debt for Which the Government Is Not Obligated in Any Manner

19. The debt service transactions of a special assessment issue for which the government is *not* obligated in any manner should be reported in an agency fund rather than a debt service fund, to reflect the fact that the government's duties are limited to acting as an agent for the assessed property owners and the bondholders. The construction phase should be reported like other capital improvements--in a capital projects fund, or other appropriate fund. The source of funds in the capital project fund should be identified by a description other than "bond proceeds," such as "contribution from property owners." The fixed assets constructed or acquired (other than those related to an enterprise fund) should be reported in the GFAAG, as appropriate. Enterprise fund fixed assets constructed or acquired should be reported as an asset in that fund. Displaying the transactions in this way recognizes that the construction or acquisition is a governmental activity and results in the addition of a governmental asset but is not financed by governmental debt.

Required Disclosures

20. If the government is obligated in some manner for special assessment debt, the notes to financial statements should disclose the information required in Codification Section 2300, "Notes to Financial Statements," as it applies to long-term debt, and should also describe the nature of the government's obligation, including the identification and description of any guarantee, reserve, or sinking fund established to cover defaults by property owners. The notes should also disclose the amount of special assessment receivables that are delinquent if not separately displayed on the face of the financial statements.

21. If the government is not obligated in any manner for special assessment debt, the notes should disclose the amount of the debt and the fact that the government is in no way liable for repayment but is only acting as agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate.

Special Assessment Improvements Financed with Existing Governmental Fund Resources

22. If an improvement is initially financed with existing governmental fund resources rather than with debt, either a direct capital expenditure or a transfer to a capital projects fund should be reported. At the time of the levy, special assessments receivable in the amount of the levy, and deferred revenue equal to the amount that is not measurable and available, should be recognized in the fund that provides the resources.

Special Assessment Improvements Affecting Enterprise Funds

23. Generally, the provisions of paragraph 15 should be followed even when the capital improvements financed by special assessments provide capital assets to a government's enterprise fund, except that the cost of the improvements should be capitalized on the enterprise fund's balance sheet and should be offset by contributed capital. The contributed capital amount should be net of resources provided by the enterprise fund for the construction. In addition, only that portion, if any, of special assessment debt that (a) is a direct obligation of the enterprise fund or (b) is not a direct obligation but is expected to be repaid from enterprise fund revenues[1] should be reported as a liability on the enterprise fund's balance sheet. However, a governmental entity is not precluded from reporting all of the transactions and balances of a special assessment project within an enterprise fund to properly reflect the actual administration of a project. For example, an enterprise fund may bill and collect assessments, may be required to subsidize debt service payments from enterprise fund resources, and may have unrestricted use of project surpluses. In that situation, the entire amount assessed to property owners should be reported as the enterprise fund's assessments receivable at the time of the levy; special assessment debt, if any, should be recorded as a liability of the enterprise fund, and so forth. Collections of assessment principal reduce the receivable, and debt service payments reduce the liability. Interest income and expense should be recognized as they accrue.

[1]Codification Section 1500, paragraph .102, requires that bonds, notes, and other long-term liabilities directly related to and expected to be repaid from proprietary funds should be included as a fund liability even though the full faith and credit of the government may be pledged as further assurance that the liabilities will be paid.

Special Assessment Districts as Component Units

24. Some special assessment districts constitute component units. The accounts of those units, including the special assessment debt for which the component unit is obligated in some manner, should be included in the reporting entity in accordance with Codification Section 2600, “Reporting Entity and Component Unit Presentation and Disclosure,” even though the oversight unit may have no obligation for the debt.

Statistical Tables

25. The statistical section of the CAFR, if one is prepared, should include a schedule of special assessment billings and collections of those billings for the last 10 fiscal years if the government is obligated in some manner for related special assessment debt.

APPLICABILITY

26. The guidance in this Statement is applicable to the special assessment transactions of all entities and funds of entities that levy special assessments as discussed in paragraphs 2–12 of this Statement.

EFFECTIVE DATE AND TRANSITION

27. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1987. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively, if practicable, by restating financial statements for all prior periods presented. In the year that this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. In addition, the reason for not restating any prior periods presented should be given.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the five members of the Governmental Accounting Standards Board:

James F. Antonio, *Chairman*
Martin Ives, *Vice-Chairman*
Philip L. Defliese
W. Gary Harmer
Elmer B. Staats

Appendix A

BASIS FOR CONCLUSIONS

28. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussions of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

29. The Board undertook this project to improve the financial reporting for special assessments and to eliminate the inconsistencies in practice that existed at the time. GASB Codification Section 1300, paragraph .104a(5), categorized special assessment funds as governmental funds. Codification Section 1600, "Basis of Accounting," paragraph .105, required governmental funds to use the modified accrual basis of accounting. However, special assessment debt was required to be recorded as a fund liability rather than as an "other financing source." The resulting accounting produced a fund deficit during the early years of a special assessment project that many considered to be artificial. As a result, some financial statement preparers used other accounting methods that, in their opinion, fairly presented the results of operations and the financial position of the fund, even though those methods were not in conformity with existing accounting and financial reporting principles for special assessment activities. Section 1300 also provided that special assessment funds account for the financing of public improvements or services. Therefore, inconsistencies had arisen in practice because some localities accounted for service-type special assessment activities in special assessment funds, and others accounted for those activities in the general fund and other funds.

30. A Discussion Memorandum (DM), *Accounting and Financial Reporting for Special Assessments,* was issued on October 31, 1985. The Board received 70 comment letters in response to the DM. The comments received were helpful and provided the Board with valuable input during its deliberations on these issues.

31. An Exposure Draft (ED) of a proposed Statement, *Accounting and Financial Reporting for Special Assessments,* was issued on July 15, 1986, and a public hearing was held in August 1986. The Board received 44 letters of comment on the ED. A majority of the respondents agreed with the major provisions of the ED. However, certain changes were made to the proposed Statement as a result of respondents' recommendations.

Elimination of the Special Assessment Fund Type

32. Approximately 75 percent of the respondents to both the DM and the ED believe that the special assessment fund type should be eliminated for financial reporting purposes. They believe that the fund type is unnecessary because all of the activities accounted for in a special assessment fund are similar in substance to those already being accounted for in other fund types. The Board agrees with those respondents.

33. Respondents who favor retaining the special assessment fund type believe that a separate fund is necessary because the benefits of a special assessment project and the resulting obligations incurred to finance the project are limited to a particular group of citizens rather than the general citizenry. As a result, they believe it is misleading to commingle the expenditures, revenues, and debt from those projects with those of similar programs provided to, and supported by, the general public. They also point out that separate funds for special assessments are often required by law. The Board considered these arguments in the context of accountability to the assessed property owners and the general citizenry, the nature of special assessment debt and special assessment projects, and the need for demonstrating legal compliance. It concluded that the arguments favoring elimination of the special assessment fund type outweigh the arguments favoring its retention. The Board further believes that eliminating this fund type will aid in simplifying governmental financial reporting and will enhance user understanding of governmental finances.

34. The Board's research on state laws shows that legal requirements for separate accounts, or funds, can usually be satisfied by using other separate governmental funds or separate accounts within those funds, as appropriate, because the laws do not specify a fund *type* and often only require a separate fund to account for collection of assessments and subsequent payment of debt. (Some state laws currently require *two* separate funds—one for the construction activity and one for the debt service activity.) The Board believes that more meaningful financial reporting of the construction and debt service phases of a capital improvement assessment can be accomplished by using the fund types normally used for construction and debt service activities.

35. The Board also believes that a separate fund type is not needed for service-type assessments because the typical service-type assessment is made for services that are substantially the same as those already being reported in other fund types. Consequently,

the Board believes these transactions should be reported in those fund types, giving consideration to the guidance in Codification Section 1100, paragraph .104.

36. The Board believes that, in substance, capital projects financed by special assessments are essentially no different from projects financed by general government resources or obligations. The capital assets financed by special assessments are governmental in nature and become part of the government's infrastructure or general fixed assets. The method of financing the construction is somewhat different, but the end result is the same. Analysis of the nature of debt associated with special assessment capital projects shows that, more often than not, the government obligates itself in some manner to pay the debt should the benefiting property owners fail to do so. As a result, while specific property owners are primarily liable for the debt, the general citizenry often assumes a secondary obligation. The Board believes that fragmenting a government's total capital acquisition and financing activity does more to confuse than to provide useful data to users of governmental financial reports.

Revenue and Expenditure Recognition

37. The ED proposed certain revenue and expenditure recognition standards that, at the time, were consistent with the tentative conclusions reached for similar transactions in the GASB's measurement focus and basis of accounting (MFBA) project. However, the recognition standards proposed in the ED were not consistent in some respects with the existing revenue/expenditure recognition criteria currently applied in governmental funds. Many respondents to the ED stated that all revenue and expenditure recognition standards for governmental funds should be developed and established in the MFBA project. They believe that setting some recognition standards in the special assessments project and others in the MFBA project would lead to inconsistent standards until the Statement, or Statements, resulting from the MFBA project becomes effective, and could possibly result in inconsistent final standards. Those respondents suggested that existing revenue and expenditure recognition standards should be applied to special assessment transactions accounted for in governmental funds, pending the final conclusions of the MFBA project. The Board agreed with those respondents. Accordingly, the proposed changes in revenue and expenditure recognition standards were deleted; they will instead be considered as part of the MFBA project. In the meantime, existing recognition standards, as generally set forth in Codification Section 1600, paragraphs .106–.121, will apply to the special

assessment transactions. The Board also agreed to continue to apply the existing standard for recognition of special assessment interest revenue.

38. The Board concluded that revenue from service-type assessments should be recognized like user fees. The Board acknowledges that service-type assessments are often billed and collected like property taxes and even referred to as "taxes" in some jurisdictions. However, it believes that the nature of the charge is more like that of user fees because the assessed amounts are generally based on expenditures (or expenses) incurred to provide the services. Like user fees, the exchange relationship of service-type assessments is much more direct. A similar relationship does not normally exist between general property taxes and the services they finance.

Receivable Recognition

39. In the ED, the Board had proposed not reporting a long-term receivable in the debt service fund for the unbilled portion of special assessment levies, offset by deferred revenue, primarily because reporting a long-term receivable in the debt service fund and an "amount to be provided" in the GLTDAG was tantamount to "double counting" the same transaction. Many respondents to the ED disagreed with the Board's proposal because they believe that special assessments receivable are a valid asset and should be reported as such in the funds. They also objected to the inconsistent treatment proposed for reporting special assessments receivable as a fund asset when existing resources are used to finance construction but not reporting the receivable when debt proceeds are used. They believe that receivable recognition must be consistent among the governmental funds. The Board reconsidered the issues based on these comments and concluded that special assessments receivable should be reported as an asset in the governmental funds because the benefits of consistent asset recognition among governmental funds outweigh what some perceive as "double counting" of the receivable and the amount to be provided.

Governmental Liability for Special Assessment Debt

40. The Board spent a significant amount of time discussing a government's liability for special assessment debt. The Board's research shows that the extent of a government's liability varies widely from state to state. Many respondents to the DM and the ED expressed their belief that *all* debt, including that for which the government is not legally liable, should be displayed in the government's financial statements. Others took the opposite view, suggesting that *no* obligation for special assessment debt should be

reported until it becomes a liability in accordance with the provisions of FASB Statement No. 5, *Accounting for Contingencies.* The Board concluded that, in the majority of cases, special assessment debt should be displayed in the government's financial statements, even though it is unlikely that the government will actually use general resources to subsidize collections from the property owners. The Board believes that if the government is obligated in some manner, the debt is "governmental" in nature and should be reported as such. To emphasize the different nature of the government's obligation for this kind of debt, the Board determined that the caption "Special assessment debt with governmental commitment" should be used to clearly distinguish this form of limited obligation from other long-term debt. The Board is aware that practice has evolved in some jurisdictions to omit special assessment debt from the face of the financial statements if the government is deemed to have no obligation to honor the debt. The Board concluded that if it is clear that the government is acting only as an agent and is not obligated in any manner to honor, and would not honor, special assessment debt, if defaulted, the debt should not be displayed on the face of the financial statements. To provide a means for preparers to make this determination, the Board compiled a list of situations that indicate when a government is "obligated in some manner" for the debt (paragraph 16).

Special Assessment Districts as Component Units

41. Paragraph 24 was added to this Statement as a result of questions raised by some respondents about how the accounts, including the debt, of a special assessment district should be included in a larger reporting entity. The Board concluded that the criteria governing the entity definition should be used in this situation. Some Board members believe that it appears to be inconsistent to exclude some special assessment debt (that is, where the entity is in no way obligated for the debt of benefited property owners not legally organized as a special district) but to include similar debt if the property owners are organized as a special assessment district and, as a result, constitute a component unit. On the other hand, the Board recognizes that there are many other situations in which the debt of a component unit (for which the oversight unit is not obligated) is nevertheless included in the reporting entity's financial statements. They believe these issues need to be addressed as part of the Board's project on the governmental financial reporting entity. The majority of the Board members believe, however, that as long as the special assessment district is obligated in some manner for the debt and that the district meets the criteria for inclusion in the reporting entity, the debt of the reporting entity as a whole is

fairly presented by applying the reporting entity presentation criteria of Codification Section 2600.

Enterprise Fund Special Assessments

42. A majority of the respondents to the DM, and some respondents to the ED, believe that *all* transactions and balances pertaining to capital improvement assessments that provide fixed assets to an enterprise fund should be reported within the enterprise fund that receives the benefit of those assets. Their opinion is based primarily on the belief that the enterprise fund owns the assets constructed and that the method of financing should not affect financial reporting of the project. The Board members are concerned, however, that in most instances neither the project cash and receivables nor the related debt meets the accepted definitions of assets and liabilities from the enterprise fund's perspective. In most cases enterprise funds have no access to those assets and have no responsibility for the debt if defaulted by the property owners. The Board is also concerned that displaying debt that will not be retired by enterprise fund operating revenues as a fund liability would be inconsistent with the current treatment for similar enterprise-related general obligation debt. The Board also believes that an inflexible requirement in many cases would result in fragmented reporting and would create excessive accounting adjustments and allocations for projects that provide capital assets to both an enterprise fund and the general government (a street and sewer assessment, for example). For these reasons, the Board concluded that reporting all transactions and balances in an enterprise fund is not appropriate in many instances. The Board therefore adopted a more flexible standard, adaptable to the different situations that exist from state to state.

Appendix B

CODIFICATION INSTRUCTIONS

43. The sections that follow update the November 1, 1984 *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number is listed if the paragraph will be cited in full in the Codification.

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SUMMARY STATEMENT OF PRINCIPLES SECTION 1100

Sources: [Add the following:] GASB Statement 6

.103 The following types of funds should be used by state and local governments:[1]

a. Governmental Funds
   (1) *The General Fund*—[as is]
   (2) *Special Revenue Funds*—to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes
   (3) *Capital Projects 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 and trust funds)
   (4) *Debt Service Funds*—[as is]
   (5) [Delete.]

[Balance of paragraph not affected.]

.105

b. [Revise as follows:] Long-term liabilities of proprietary funds and trust funds should be accounted for through those funds. All other unmatured general long-term liabilities of the governmental unit, which includes special assessment debt for which the government is obligated in some manner, should be accounted for through the General Long-Term Debt Account Group.

.108 [Revise as follows:] The modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

[1]The special assessment fund type, as identified in NCGA Statement 1, should not be used in general purpose financial statements. See Section S40, "Special Assessments." [GASBS 6, ¶13]

a. *Governmental fund* revenues and expenditures should be recognized on the modified accrual basis. 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 debt, which should be recognized when due.

[Balance of paragraph not affected.] [Add GASBS 6, ¶13, ¶15, and ¶17 as sources at end of section.]

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GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND LEGAL COMPLIANCE **SECTION 1200**

.115 [Add the following:]

d. Section S40, "Special Assessments," paragraph .113, discusses compliance with legal requirements when reporting on special assessment activities.

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FUND ACCOUNTING **SECTION 1300**

Sources: [Add the following:] GASB Statement 6

.102

a. [Delete reference to special assessment funds.] [Add source: GASBS 6, ¶13]

.103

a. [Revise as follows:] Account groups are used to establish accounting control and accountability for the government's general fixed assets and the unmatured principal of its general long-term debt, including special assessment debt for which the government is obligated in some manner (General Fixed Assets and General Long-Term Debt Account Groups).
b. [Delete reference to special assessment funds.] [Add source: GASBS 6, ¶17]

.104 Seven major fund types and two accounting groups should be used by state and local governments:[2a]

a. Governmental Funds
   (1) *The General Fund*—[as is]
   (2) *Special Revenue Funds*—to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.
   (3) *Capital Projects 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 and trust funds).
   (4) *Debt Service Funds*—[as is]
   (5) [Delete.]

[Balance of paragraph not affected.] [Add source: GASBS 6, ¶13]

.107 Some governmental units often need several funds of a single type, such as special revenue 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. [Balance of paragraph not affected.] [Add source: GASBS 6, ¶13]

.112 and .113 [Change “eight fund types” to “seven fund types.”] [Add source: GASBS 6, ¶13]

.114 On the other hand, capital outlay transactions financed through capital projects funds typically are planned and evaluated on a project basis. [Balance of paragraph not affected.] [Add source: GASBS 6, ¶13]

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FIXED ASSETS **SECTION 1400**

Sources: [Add the following:] GASB Statement 6

.103 [Add the following at the end of the paragraph:] Capital improvements financed by special assessments that provide capital assets to a government’s enterprise fund should be capitalized on the enterprise fund’s balance sheet and should be offset by contributed

[2a]The special assessment fund type, as identified in NCGA Statement 1, should not be used in general purpose financial statements. See Section S40, “Special Assessments.” [GASBS 6, ¶13]

capital in accordance with Section S40, "Special Assessments," paragraph .123. [Add source: GASBS 6, ¶23]

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LONG-TERM LIABILITIES SECTION 1500

Sources: [Add the following:] GASB Statement 6

Statement of Principle
Accounting for Long-Term Liabilities

> A clear distinction should be made between fund long-term liabilities and general long-term debt. Long-term liabilities of proprietary funds and trust funds should be accounted for through those funds. All other unmatured general long-term liabilities of the governmental unit, including special assessment debt for which the government is obligated in some manner, should be accounted for through the General Long-Term Debt Account Group. [NCGAS 1, ¶32 and GASBS 6, ¶17]

.102 [Delete the reference to special assessment funds.][1] [Add source: GASBS 6, ¶13]

.103 All other unmatured long-term indebtedness of the government, including certain special assessment debt discussed in paragraph .105A below, is *general long-term debt* and should be accounted for in the General Long-Term Debt Account Group (GLTDAG). 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 trust fund. [Balance of paragraph not affected.] [Add source: GASBS 6, ¶17]

[Add after paragraph .105:]

Special Assessment Debt

.105A [GASBS 6, ¶17] [Change paragraph reference.]

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[1][Add the following at the end of footnote 1:] Section S40, "Special Assessments," paragraph .123, discusses circumstances in which special assessment debt should be recorded as an enterprise fund liability.

Basis of Accounting—General Long-Term Debt

.106 Section 1600, "Basis of Accounting," paragraph .117, indicates that most governmental fund expenditures are measurable and should be recorded when the related liability is incurred. The major exception to the general rule of expenditure accrual relates to unmatured principal and interest on general long-term debt. [Balance of paragraph is not affected.] [Add source: GASBS 6, ¶16]

.107 [Delete the reference to special assessment fund.] [Add source: GASBS 6, ¶13]

.108 [Delete the reference to special assessment funds in the first sentence and add the following at the end of the paragraph:] 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, "Special Assessments," paragraph .119. [Add source: GASBS 6, ¶19]

[Add the following after paragraph .117:]

Special Assessment Debt

.118 Section S40 discusses accounting and financial reporting of special assessment–related debt.

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BASIS OF ACCOUNTING **SECTION 1600**

Sources: [Add the following:] GASB Statement 6

Statement of Principle
Accrual Basis in Governmental Accounting

The modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

a. *Governmental fund* revenues and expenditures should be recognized on the modified accrual basis. 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 debt, which should be recognized when due.

[Balance of paragraph not affected.] [Add source: GASBS 6, ¶15]

.107 [Add the following at the end of the paragraph:] Service-type special assessment revenues should be treated like user fees. [Add source: GASBS 6, ¶14]

.121 [Revise the first sentence as follows:] The major exception to the general rule of expenditure accrual 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. [Add source: GASBS 6, ¶16]

[Revise paragraph .124 as follows:]

Special Assessment Interest Revenues and Expenditures

.124 Special assessment interest revenues and expenditures are discussed in Section S40, "Special Assessments."

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THE BUDGET AND BUDGETARY ACCOUNTING SECTION 1700

Sources: [Add the following:] GASB Statement 6

.119 [Delete the reference to special assessment fund.] [GASBS 6, ¶13]

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CLASSIFICATION AND TERMINOLOGY SECTION 1800

Sources: [Add the following:] GASB Statement 6

.108 [Delete the reference to special assessment funds.] [GASBS 6, ¶13]

.109 [Add the following at the end of the paragraph:] 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, "Special Assessments," paragraph .119. [Add source: GASBS 6, ¶19]

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COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

Sources: [Add the following:] GASB Statement 6

.603 and .604 [Delete Special Assessment column in sample financial statements and revise total column to reflect change.] [Add source: GASBS 6, ¶13]

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NOTES TO FINANCIAL STATEMENTS SECTION 2300

.105 [Add the following:]

x. Special assessment debt and related activities. (See Section S40, "Special Assessments," paragraphs .120 and .121.)

.601 [Add the following:]

III.B.(g) Special assessment debt and related activities

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STATISTICAL TABLES SECTION 2800

Sources: [Add the following:] GASB Statement 6

.103

f. [Revise as follows:] Special Assessment Billings and Collections—Last Ten Fiscal years (if the government is obligated in some manner for related special assessment debt) [GASBS 6, ¶25]

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CLAIMS AND JUDGMENTS SECTION C50

.103 [Delete the reference to special assessment funds.]

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COMPENSATED ABSENCES **SECTION C60**

.103 [Delete the reference to special assessment funds.]

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GRANTS, ENTITLEMENTS, AND SHARED REVENUES **SECTION G60**

Sources: [Add the following:] GASB Statement 6

.103 [Delete the reference to special assessment funds.] [Add source: GASBS 6, ¶13]

.104 All transactions must be accounted for within one of the seven fund types discussed in Section 1300, “Fund Accounting”: general, special revenue, capital projects, debt service, enterprise, internal service, and trust and agency funds. [Balance of paragraph not affected.] [Add source: GASBS 6, ¶13]

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[Delete Section S40 as written and substitute the following:]

SPECIAL ASSESSMENTS **SECTION S40**

Source: GASB Statement 6

.101–.126 [GASBS 6, ¶1–¶26] [Change “Statement” to “section” and paragraph references as appropriate.]