

State and Local Government Accounting Principles

Chapter 2



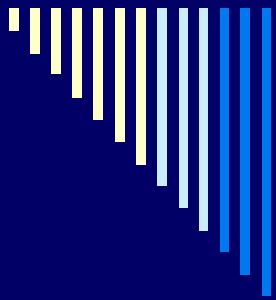
Learning Objectives

- ❑ Discuss major aspects of government financial reporting model
 - ❑ Define fund and examine broad categories
 - ❑ Identify MFBA found in financial statements
 - ❑ Analyze effects of transactions
 - ❑ Discuss budgetary accounting & reporting
 - ❑ Understand fund categories and types of funds found in each category
 - ❑ Understand basic financial reporting requirements
-

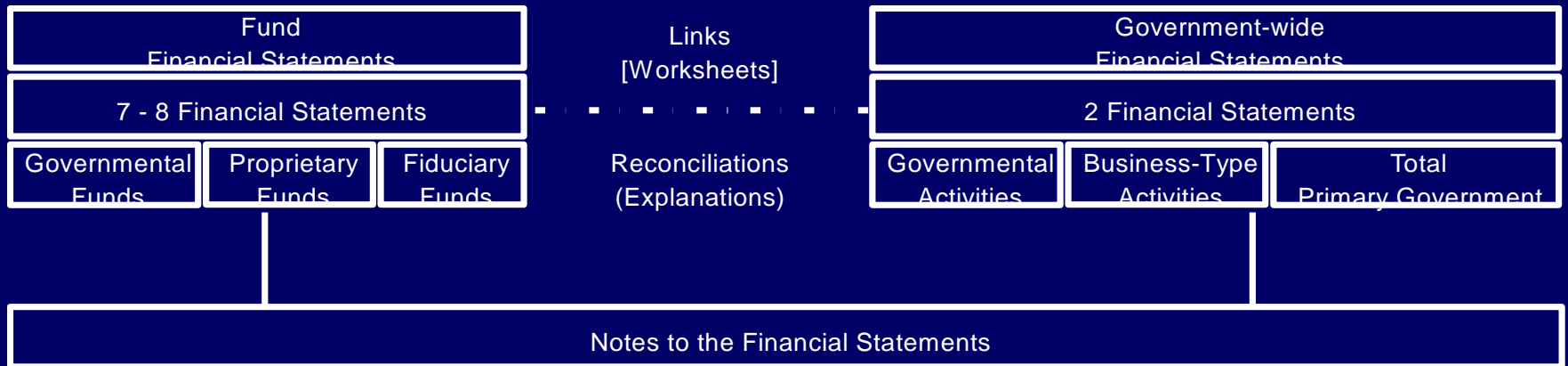


GASBS 34: Basis for Financial Reporting

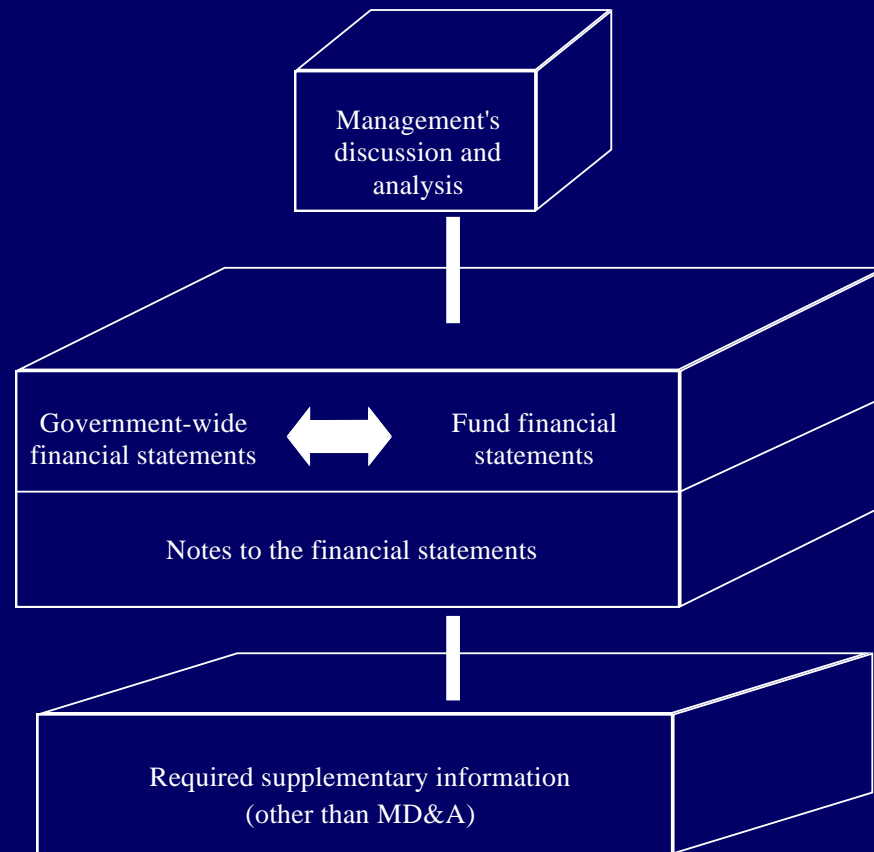
- Issuance in 1999 marked a major change in governmental financial reporting
 - Created dual perspective reporting:
 - Government-wide financial statements, using accrual accounting
 - Fund financial statements, using other bases of accounting
-



Basic Financial Statements: Overview



Minimum Requirements for External Financial Reporting: The GASB's View





Fundamentals of SLG Accounting & Financial Reporting

1. GAAP & legal compliance
 2. Fund accounting
 3. Fund categories
 4. Types of funds
 5. Comparative financial statement formats
 6. Annual financial reporting
-



GAAP & Legal Compliance

GAAP Reporting

- Ensures that the financial reports of all SLGs contain the same types of financial statements and disclosures for the same types of funds and activities
 - Requires “full” disclosure
-



GAAP & Legal Compliance (continued)

Legal Compliance

- Ranges from simple to complex requirements
 - May be simple if budgeting on a GAAP basis
 - More complex if cash or encumbrance budgeting is required
 - Identifying the budgetary basis is key
-



GAAP & Legal Compliance (continued)

Reconciling GAAP & legal requirements

- ❑ Maintain budgetary accounting control during the year
 - ❑ Clearly distinguish between budgetary basis from GAAP basis
 - ❑ Prepare statements and schedules using both bases and reconcile differences
-



GAAP Requirements

- Trying to assure comparability among and between governments
 - Full disclosure may result in much more information than “adequate” disclosure required by FASB
-



Fund Accounting

- Most distinctive feature of governmental accounting
 - Use of fund accounting allows for
 - Proper accounting controls
 - Demonstrating compliance
 - Must understand fund structure, fund model, and interrelationships between funds
-



Definition of a fund

- Independent accounting entity with a self-balancing set of accounts
 - Similar to a business accounting entity
 - Business entity captures all reported attributes for the entire business and all its transactions
 - Fund captures all reported attributes of a portion of the government's activities and resources accounted for in that fund
-



Fund Categories

- Proprietary Funds
 - Governmental Funds
 - Nonfund accounts
 - Fiduciary Funds
-



Proprietary Funds

- Similar to accounting for businesses
- Accounting measures net assets, changes in net assets, and cash flows
- Accounting equation:

$$\begin{array}{rcccl} \text{Current Assets} & & \text{Current +} & & \\ & + & \text{Long-term} & = & \text{Net Assets} \\ & & \text{Liabilities} & & \\ \text{Capital Assets} & - & & & \end{array}$$



Proprietary Funds – MFBA

- Measurement focus (MF)
 - Economic resources
 - Financial statement recognition of all assets and all liabilities
 - Basis of Accounting (BA)
 - Accrual
 - Recognize revenues when earned and expenses when incurred
-



Governmental Funds

- Used to account for sources, uses, and balances of general government financial resources
- Funds represent segregations of general government net financial assets
- Accounting equation:

$$\begin{array}{ccccc} \text{Financial} & & \text{Related} & & \text{Fund} \\ \text{Assets} & - & \text{Liabilities} & = & \text{Balance} \end{array}$$



Governmental Funds: Accounting Equation Terms

- Financial Assets – refers primarily to cash, investments, and receivables
 - Related Liabilities – related to the current year and normally paid for available current financial resources
 - Fund Balance – net financial assets of fund – the difference in financial assets and related liabilities
-



Governmental Funds – MFBA

- Measurement focus – current financial resources
 - Basis of accounting – modified accrual
-



Governmental Funds: Recognition Criteria – Revenues

- ❑ Earned during or levied for the period
 - ❑ Objectively measurable
 - ❑ Collected in period or soon enough thereafter (usually 60 days) to pay liabilities incurred for expenditures of the period
-



Governmental Funds: Recognition Criteria – Expenditures

- When operating or capital outlay liabilities to be paid currently from governmental funds are incurred
 - When debt service (principal and interest) payments on long-term liabilities are due
-



Expenditure / Expense Comparison

	Expenditures (net financial assets expended)	Expenses (cost of goods or services used)
Operating	Salaries, supplies, utilities, etc.	Salaries, supplies, utilities, etc.
Capital Outlay	Acquisition	Depreciation
Debt Service	Principal & Interest	Interest



Nonfund Accounts: General Capital Assets

- ❑ Capital assets used in general government activities
 - ❑ Not assets of any fund but of the governmental unit as a whole
 - ❑ Inclusion in governmental fund financial statements would increase fund balance and could mislead users
-



Nonfund Accounts: General Long-term Liabilities

- ❑ Secured by the general credit and revenue-raising powers of the government
 - ❑ Unmatured principal does not require current appropriation and expenditure of fund financial resources
 - ❑ If included as governmental fund liability would be misleading and dysfunctional to current period management control
-



Nonfund Accounts: Accounting Equation

$$\begin{array}{r} \text{General Capital} \\ \text{Assets (GCA)} \end{array} - \begin{array}{r} \text{Unmatured General} \\ \text{Long-Term Liabilities} \\ \text{(GLTL)} \end{array} = \begin{array}{r} \text{Net Assets} \\ \text{(NA)} \end{array}$$



Fiduciary Funds

- Accounts for assets held by government in trustee or agency capacity for others
 - Not used to report assets held for government's own use
-



Fiduciary Funds – MFBA

- Measurement focus – economic resources
 - Basis of accounting – accrual
-



Categories and Types of Funds

GOVERNMENTAL FUNDS

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Permanent Funds

PROPRIETARY FUNDS

- Enterprise Funds
- Internal Service Funds

FIDUCIARY FUNDS

- Pension Trust Funds
 - Investment Trust Funds
 - Agency Funds
 - Private Purpose Trust Funds
-



Types of Proprietary Funds

- Enterprise Funds – customers are usually the general public (as well as businesses and other entities besides the government's own departments or agencies (Chapter 10))
 - Internal Service Funds – customers are predominantly other departments or agencies of the government (Chapter 11)
-



Types of Governmental Funds

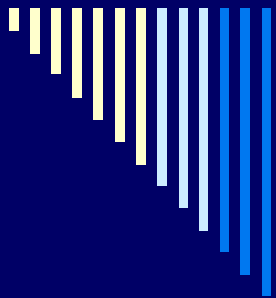
- General Fund – used to account for all financial resources except those required to be accounted for in another fund (Chapters 3 – 6)
 - Special Revenue Funds – used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes (Chapters 3 – 6)
-



Types of Governmental Funds

(continued)

- Capital Projects Funds – used to account for financial resources that are used to acquire or construct major general capital assets or facilities. (Chapter 7)
 - Debt Service Funds – used to account for the accumulation of resources for, and the payment of, *general long-term debt* principal and interest. (Chapter 8)
-



Types of Governmental Funds

(concluded)

- Permanent Funds – used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs



Types of Fiduciary Funds

- Pension (and other employee benefit) Trust Funds – established to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, and other employee benefit plans.
-



Types of Fiduciary Funds

(continued)

- Investment Trust Funds – used to account for the external portion of investment pools held by the sponsoring government.
 - Private-Purpose Trust Funds – used to account for all other trust arrangements under which principal and/or income benefit individuals or groups outside the government.
-



Types of Fiduciary Funds

(concluded)

- Agency Funds – established to account for resources held in a purely custodial capacity for others.

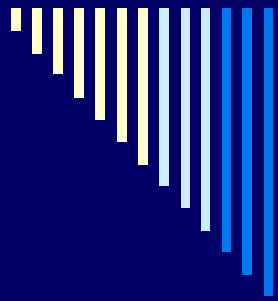
All Fiduciary Funds are discussed in
Chapter 12



Interfund Transactions

- Interfund loans
- Interfund services provided and used
- Interfund reimbursements
- Interfund transfers

Of particular interest here are loans and transfers



Loans

- Amounts provided by one fund to another with a requirement for repayment
- Affects only balance sheet accounts

Transfers

- Flows of assets from one fund to another with no requirement for repayment
- Affects balance sheet and operating statement accounts



Comparative Operating Statements

Proprietary Funds

- ❑ Accrual-based
- ❑ Must distinguish between operating and non-operating revenues and expenses
- ❑ Separate reporting for capital contributions, special & extraordinary items, and transfers
- ❑ Change in Net Assets

Governmental Funds

- ❑ Modified accrual-based
 - ❑ Report revenues by source and expenditures by character
 - ❑ Other Financing Sources and Uses for other resource flows, including transfers
 - ❑ Special & extraordinary items reported separately
 - ❑ Change in Fund Balance
-



Comparative Balance Sheets

Proprietary Funds

- Current and Noncurrent Assets
- Current and Noncurrent Liabilities
- Net Assets

Governmental Funds

- Financial Assets
 - Related Liabilities
 - Fund Balance
-

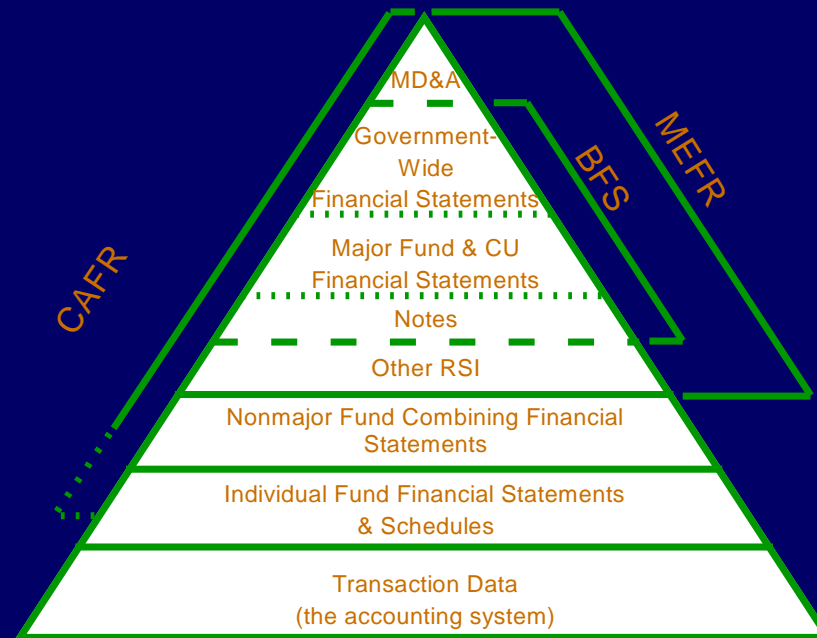


Annual Financial Reporting

Comprehensive Annual Financial Report (CAFR)

- Should be prepared for all governmental entities
 - Sections include:
 - Introductory – little GAAP for this section
 - Financial – most GASB standards apply to this section
 - Statistical – see recently issued GASBS 44
-

Annual Financial Reporting



CAFR--Comprehensive Annual Financial Report

BFS--Basic Financial Statements

MEFR--Minimum External Financial Reporting



Annual Financial Reporting

Minimum reporting requirements

- Management's Discussion & Analysis
 - Basic Financial Statements
 - Government-wide financial statements
 - Fund financial statements
 - Notes to the financial statements
 - Required supplementary information other than MD&A
-



Annual Financial Reporting

Financial Reporting Entity consists of

- Primary government (PG)
 - Organizations for which the PG is financially accountable
 - Other organizations whose omission would cause financial statements to be misleading or incomplete
-



Annual Financial Reporting

Government-wide financial statements should include separate columns for Governmental Activities, Business-Type Activities, Total column for PG, and discretely presented component units



Annual Financial Reporting

Management's Discussion & Analysis

- ❑ Brief discussion of financial statements
 - ❑ Condensed government-wide financial information
 - ❑ Analysis of position & results of operations
 - ❑ Analysis of individual funds
 - ❑ Budget analysis
 - ❑ Significant capital assets and LTL events
 - ❑ Modified approach
 - ❑ Description of currently known facts
-



Annual Financial Reporting

Fund Financial Statements include major funds individually and nonmajor funds in the aggregate. Fiduciary fund statements are not included in the basic financial statements.



Annual Financial Reporting

Financial Reporting Entity

- Nucleus is the PG
 - Other activities include:
 - Discretely presented component units
 - Blended component units
 - Joint ventures
 - Jointly governed organizations
 - Related organizations
-



Annual Financial Reporting

Government-wide Financial Statements

- Statement of Net Assets
 - Statement of Activities
-



Annual Financial Reporting

Governmental Fund Statements (Schedules)

- Balance Sheet
 - Statement of Revenues, Expenditures, & Changes in Fund Balance
 - Statement of Revenues, Expenditures, & Changes in Fund Balance – Budget-to-Actual (may be either BFS or RSI)
-



Annual Financial Reporting

Proprietary Fund Statements

- Statement of Net Assets / Balance Sheet
 - Statement of Revenues, Expenses, & Changes in Net Assets
 - Statement of Cash Flows
-



Annual Financial Reporting

Fiduciary Fund Financial Statements

- Statement of Fiduciary Fund Net Assets
 - Statement of Changes in Fiduciary Fund Net Assets
-

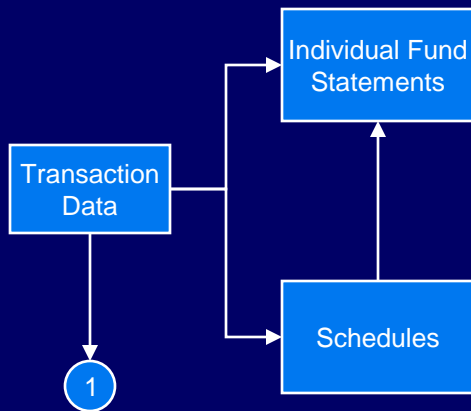


Preparation Process: Step 1

Transaction
Data

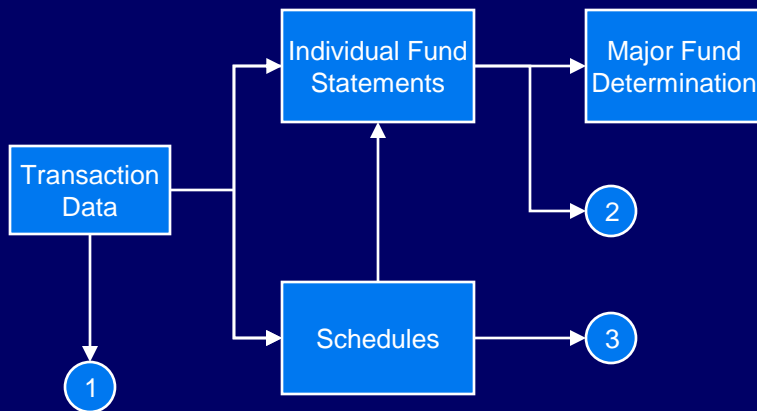
Start with the transaction data – the basic building blocks for everything in the Comprehensive Annual Financial Report (CAFR),

Preparation Process: Step 2



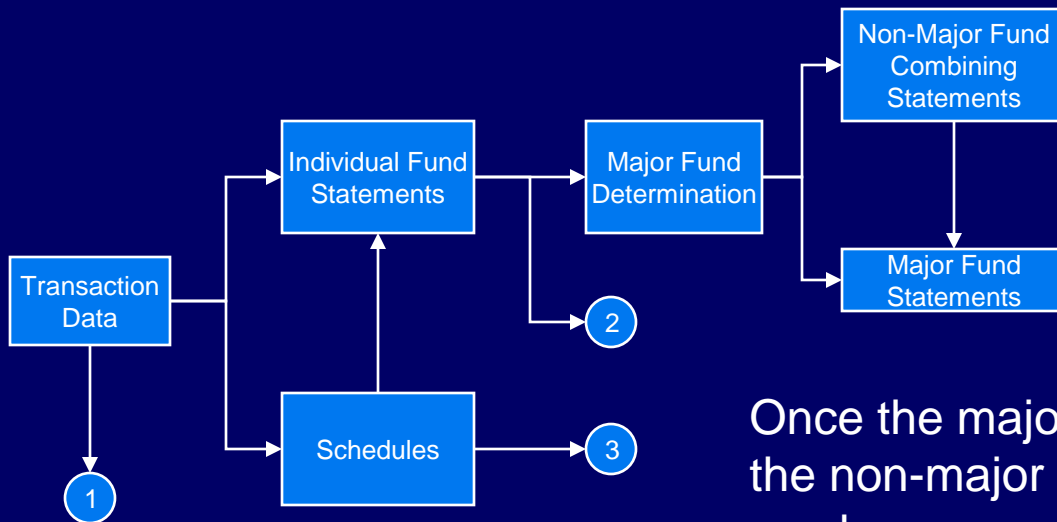
From the transaction data, prepare the individual fund financial statements and schedules. Also, some of the transaction data will be used later in the CAFR preparation process.

Preparation Process: Step 3



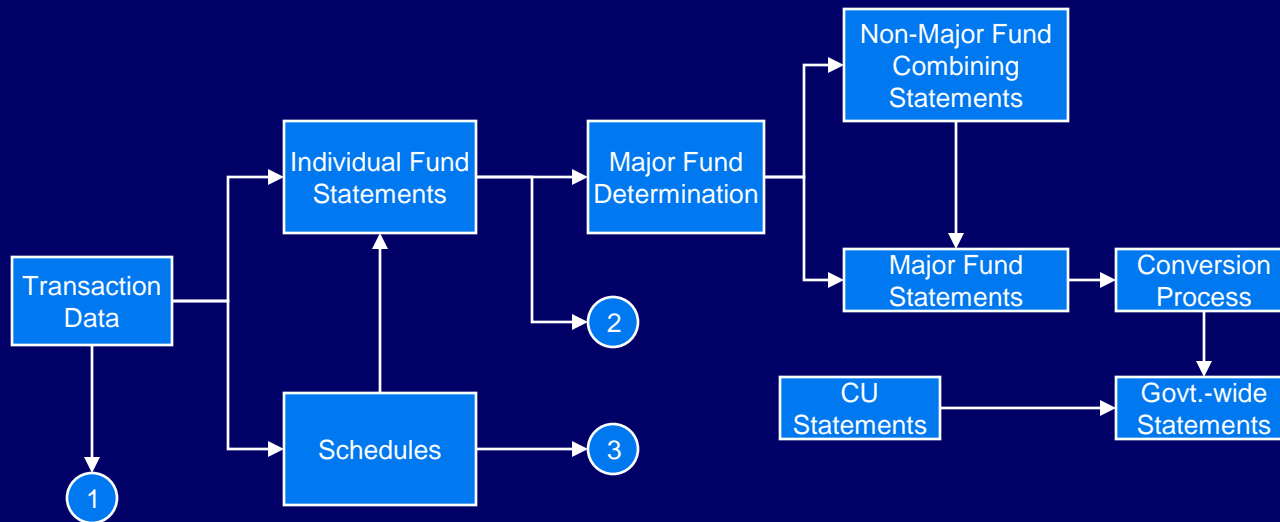
Determine the major funds (this process will be discussed later). Also, information from the individual fund statements and schedules will be used later in the process.

Preparation Process: Step 4



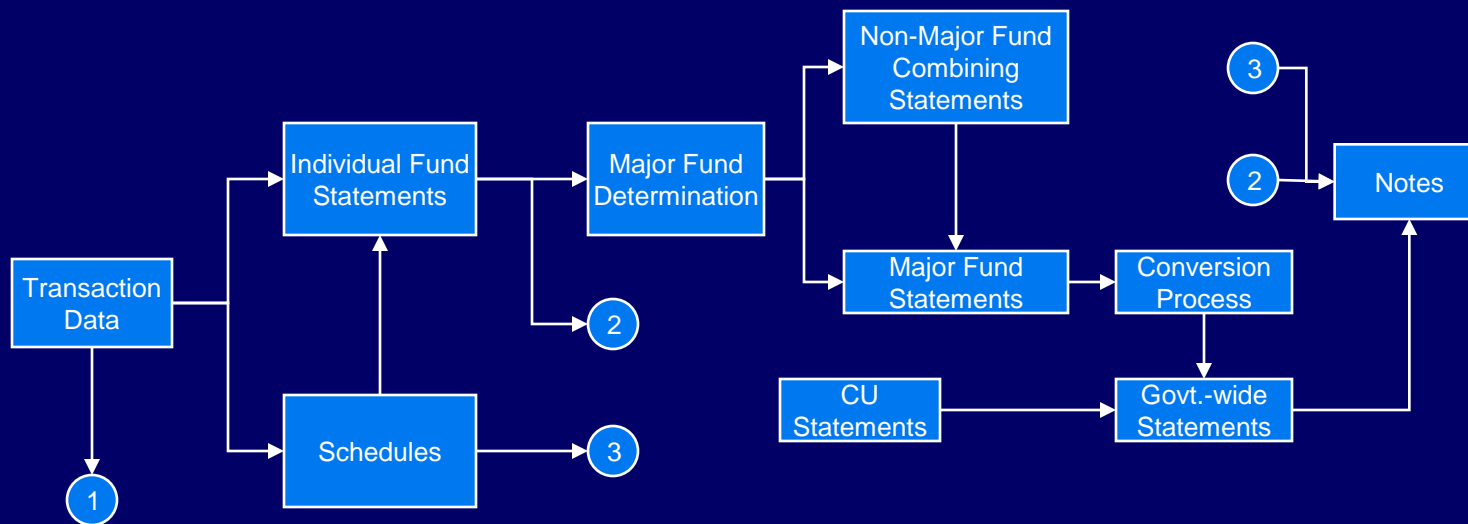
Once the major funds have been determined, the non-major fund combining statements can be prepared. The total column from these statements becomes a single column in the major fund statements along with a separate column for each major fund.

Preparation Process: Step 5



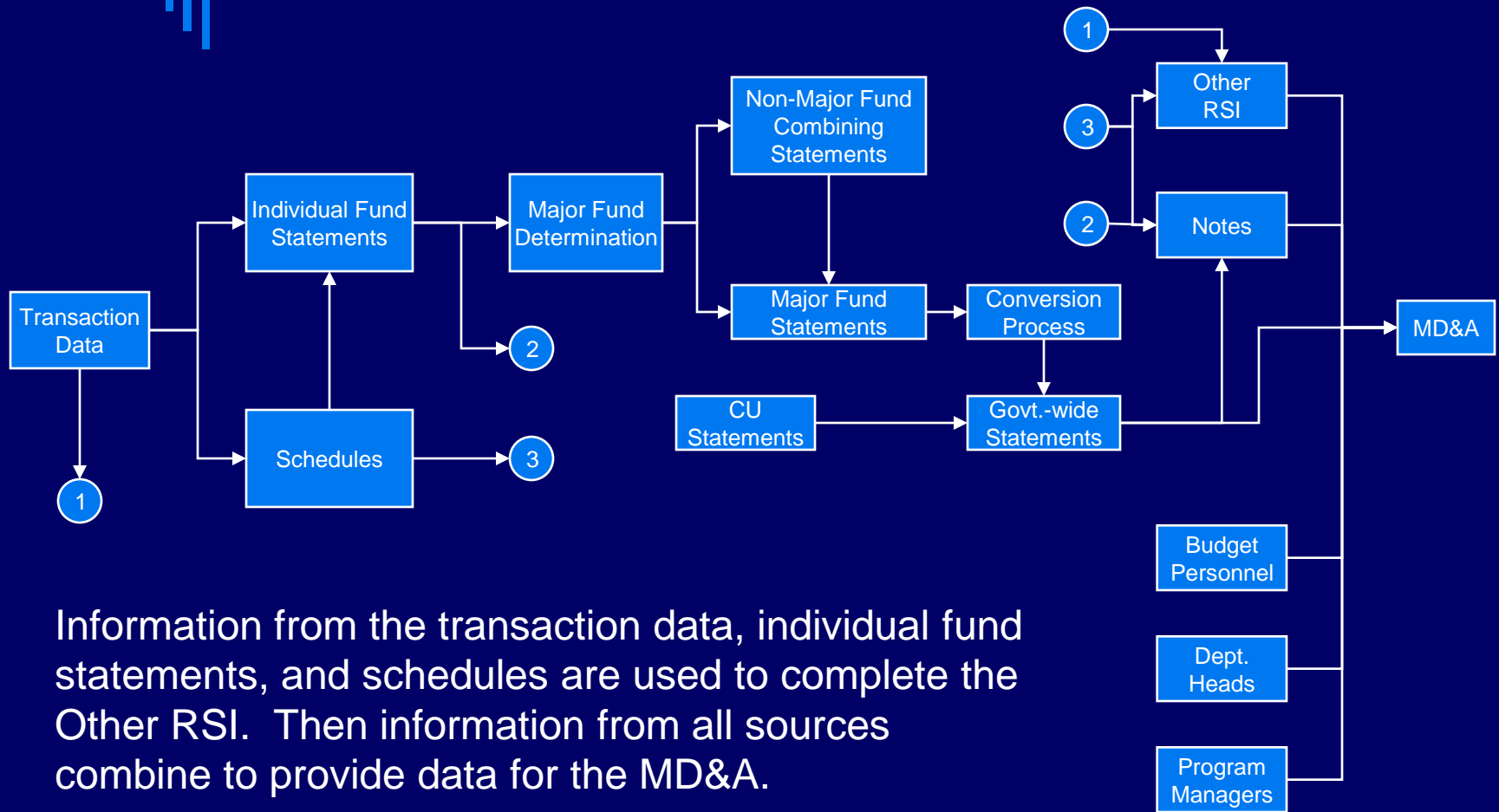
The major funds statements undergo a conversion process and are combined with the component units financial statements to complete the government-wide statements.

Preparation Process: Step 6



Information from all the financial statements and the schedules are used to prepare the notes to the financial statements. This process completes the Basic Financial Statements (BFS).

Preparation Process: Step 7



Information from the transaction data, individual fund statements, and schedules are used to complete the Other RSI. Then information from all sources combine to provide data for the MD&A.