Learning Objectives

- Identify a government’s basic financial statements
- Understand format and content of government-wide financial statements and fund financial statements
- Understand the concept and content of RSI
- Identify a government’s major funds and how to prepare fund financial statements
- Distinguish program revenues from general revenues
- Understand unique reporting provisions of infrastructure capital assets
- Understand required information components of MD&A
- Understand types of notes to financial statements
- Understand reporting requirements of special purpose governments
Major Elements of Principle #13

- Interim financial statements & reports
- Comprehensive Annual Financial Report (CAFR)
- Minimum reporting requirements
  - MD&A
  - Basic Financial Statements (BFS)
  - Required Supplementary Information
- Financial reporting entity
- Nucleus of a financial reporting entity
Interim Financial Statements

- Encouraged, but not required
- Prepared to facilitate management’s control of the government, legislative oversight, and [occasionally] external financial reporting
Comprehensive Annual Financial Report

- Should be prepared and published
- Covers primary government (including blended component units) and discretely presented component units
- Includes:
  - Introductory Section
  - Financial Section
  - Statistical Section
Financial Reporting Entity

Consists of

- Primary Government
- Organizations for which the primary government is financially responsible
- Other organizations whose exclusion from the report would cause it to be misleading or incomplete
Reporting Entity’s Financial Statements

- **Government-Wide Financial Statements**
  - Provide information about the reporting government as a whole
  - Distinguish between primary government (composed of Governmental Activities & Business-Type Activities) and discretely presented component units

- **Fund Financial Statements**
  - Present primary government’s major funds individually and nonmajor fund in aggregate
  - Funds and component units that are fiduciary in nature reported only at this level
Nucleus of Financial Reporting Entity

- Usually a primary government
- Other entities can serve as nucleus of own reporting entity, even when related to a primary government
- Financial reports built from the bottom up, applying all definition and display provisions to each level before rolling up to next level
Focus of this Chapter

- Minimum requirements for financial reporting, which are the MD&A, basic financial statements, and other RSI
- Some governments may be required to present a CAFR – topic of Chapter 15
What makes up the minimum report?
GASB Statement #34

Minimum Requirements for General Purpose External Financial Reporting

Management's discussion and analysis

Government-wide financial statements

Fund financial statements

Required supplementary information (other than MD&A)

Notes to the financial statements
Basic Financial Statements Overview

- Government-Wide Financial Statements
  - Statement of Net Assets
  - Statement of Activities

- Governmental Funds Financial Statements
  - Balance Sheet
  - Statement of Revenues, Expenditures, and Changes in Fund Balances (GAAP basis)
  - Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
BFS Overview (continued)

- Proprietary Funds Financial Statements
  - Statement of Net Assets (Balance Sheet)
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows

- Fiduciary Funds Financial Statements
  - Statement of Fiduciary Net Assets
  - Statement of Changes in Fiduciary Net Assets

- Notes to the financial statements
Fund Financial Statements

- Major fund statements prepared for
  - Governmental Funds
  - Enterprise Funds
- Fund type statements prepared for
  - Internal Service Funds
  - Fiduciary Funds
Major Fund Reporting: Governmental Funds [Pages 511–514]

- Separate column for
  - General Fund
  - Each major fund
  - Aggregate column for all nonmajor funds
- Total column required
- Reconciliations required
  - Fund Balance to Net Assets [Bottom of page 511]
  - Change in Fund Balance to Change in Net Assets [Page 513]
Major Fund Reporting: Proprietary Funds  [Pages 515–517]

- Separate column for each major Enterprise Fund
- Enterprise Funds Total column required
- Single column for all ISFs
- Proprietary Total column may be prepared but does not tie to other financial statements
Identifying Major Funds

- General Fund is always a major fund
- Other major funds may change from year-to-year
- Any Governmental Fund or Enterprise Fund must be a major fund if both these tests are passed:
  - Total assets, liabilities, revenues, or expenditures/expenses (excluding extraordinary items or special items) are at least 10% of the corresponding total for all funds of that category or type
  - The same element that met the 10% test above is at least 5% of the corresponding element total for all Governmental Funds and Enterprise Funds combined
- Other funds not passing these tests can be reported as major at the option of the government
Steps for Major Fund Calculations

1. List all Governmental Funds and Enterprise Funds
2. Gather required information for each fund:
   - Total Assets
   - Total Liabilities
   - Total Revenues
   - Total Expenditures / Expenses, as appropriate
3. Divide each element by applicable total for 10% and 5% tests
4. Major funds are ones where same element passes both tests
5. Sample shown in 13-1 IN PRACTICE [Page 519]
Fund-Type Reporting [Pages 522–523]

- Used for Fiduciary Funds
- Separate column for each type of Fiduciary Fund
  - Pension Trust Funds
  - Investment Trust Funds
  - Private Purpose Trust Funds
  - Agency Funds (on Statement of Fiduciary Net Assets only)
- Total column allowed but does not tie to other financial statements
Notes on Governmental Funds Balance Sheet
[Found on page 511]

- Major funds reported in separate columns
- All other funds aggregated in a single column (combining statements included elsewhere in the CAFR but not part of BFS)
- Total column required by GAAP
- GCA and GLTL not reported in fund statements
- Reservations of fund balance must be in sufficient detail to be understood
- If non-major funds have Unreserved Fund Balance, it must be reported by fund types
Notes on Governmental Funds Operating Statement [Found on page 512]

- Same major fund format as found with Balance Sheet
- Standard format used – same format demonstrated in Chapter 2 through 8
Notes on Governmental Funds Budgetary Comparison Statement [Found on page 514]

- Required for General Fund and all major SRFs with legally adopted budgets
- 3 columns required: (1) original budget, (2) final budget, and (3) actual amounts on a budgetary basis
- Variance column is optional, although most governments present it
- Format need not be the same as operating statement
- Statement may be presented as part of BFS or in RSI as a schedule
- Actual amounts on budgetary basis must be reconciled to GAAP basis
Government-Wide Financial Statements: Common Features

- Distinguish between primary government and discretely presented component units
- Focus is on the primary government
- Distinguish between primary government’s Governmental Activities and Business-Type Activities
- Present a total column for the primary government
- Apply same accounting standards to Governmental Activities and Business-Type Activities
- Exclude Fiduciary Funds and fiduciary component units
Governmental Activities

- Financed primarily through
  - Taxes
  - Intergovernmental revenues
  - Other nonexchange revenues
- Generally reported in Governmental Funds and, maybe, Internal Service Funds
- Most general capital assets and general long-term liabilities reported here
- Activities include general administration, public safety, education, streets & roads, and health & sanitation
Business-Type Activities

- Financed in whole or in part by fees charged to external users for goods and services
- Generally reported in Enterprise Funds, although ISFs can be here, too
- Activities may include public utilities, mass transportation, landfills, airports, and some recreational facilities
Statement of Net Assets [Page 525]

- Generally same format as used by Proprietary Funds
- May use either balance sheet format or net asset format
- May or may not be classified
- Columns may include
  - Governmental Activities
  - Business-Type Activities
  - Primary Government Total Column (required if both GA and BTA present)
  - Discretely presented Component Units (one or more columns)
  - Reporting Entity Total Column is optional
Key Features of Statement

- Assets & liabilities presented in order of relative liquidity (unless classified)
- Capital assets should be reported either
  - Single line item or distinguish between depreciable and nondepreciable assets
  - Major classes of assets
- Liabilities with average maturities of more than one year must be reported separate from current liabilities
Key Features of Statement

- General capital assets included in Governmental Activities column
- Infrastructure capital assets reported using modified approach should be reported separately
- General long-term liabilities reported in Governmental Activities column
- Interfund payables and receivables between Governmental Funds have been eliminated – same is true for Enterprise Fund receivables and payables
Key Features of Statement (continued)

- Internal balances between Governmental Activities and Business-Type Activities are net receivable and payable amounts – eliminated when preparing total column
- Net Assets presented in three components
  - Invested in Capital Assets, Net of Related Debt
  - Restricted – distinguish between major categories of restrictions
  - Unrestricted
Intended to present

- Cost of providing services by function
- Related program revenues derived from each function
- Net burden that each function places on taxpayers and other providers of general revenues
- Sources from which the net cost of the government’s activities are financed
Statement of Activities Presentation

- Three sets of columns
  - Expenses
  - Program Revenues
  - Net (Expense) Revenue and Changes in Net Assets – these mirror columns found on Statement of Net Assets

- Upper portion of statement reports
  - Expenses (of a particular function)
  - Program Revenues (of the function)
  - Net (Expense) Revenue (of the function)
Each function or program shown on a separate line with separate sections for

- Governmental Activities – minimum level of detail derived from Statement of Revenues, Expenditures, and Changes in Fund Balance Current (Operating) Expenditures section
- Business-Type Activities – minimum level is by identifiable activity
- Component Units – usually reported on one line but may report by major component unit
MFBA – important features

- MFBA
  - Measurement focus – economic resources
  - Basis of Accounting – accrual
- Expenses not found on Governmental Fund operating statement reported on Statement of Activities
  - Capital outlay expenditures replaced by depreciation expense
  - Debt service principal payments not reported on Statement of Activities
  - Interest expenditure become interest expense – much broader measure
  - Compensated absences, claims and judgments, & pension liabilities not shown as expenditures on fund statements become expenses on this statement
Reporting Expenses

- Reporting direct expenses by function is the minimum requirement for Statement of Activities.
- May allocate indirect expenses among functions – requires use of a separate column (rarely used).
- Interest Expense generally reported as a separate line [function] but may be as a direct expense if certain requirements are met.
- General rules for reporting Depreciation Expense:
  - Direct expense of function responsible for related asset.
  - Infrastructure depreciation direct expense of function responsible for maintaining it.
  - Depreciation on asset used by all functions need not be allocated.
Program Revenues vs. General Revenues

[See Illustration 13-13 on page 533]

- Program Revenues generally classified as:
  - Charges for Services
  - Program-specific Operating Grants & Contributions
  - Program-specific Capital Grants & Contributions
- May change columnar titles, if appropriate
- General Revenues include
  - All taxes
  - Other revenues not restricted to particular programs
Charges for Services

- Charges for services always reported as program revenues
- Charges for services should be reported in function that generated the revenues, even if used by a different program
- All other program revenues reported with function to which use is restricted
Grants and Contributions

- If restricted to single program, reported with that program
- Multi-purpose grants should be divided amongst benefited programs
- Grants not restricted to a particular program must be reported as general revenues
- If earnings on investments are restricted to program use, then reported as program revenue (otherwise report as general revenue)
Internal Service Funds

- Must be reconciled out of existence before preparing government-wide financial statements.
- Assets, liabilities, and net assets allocated to activity most supported by ISF
  - Governmental Activities
  - Business-type Activities
- Allocation process identified in Chapter 14
Infrastructure Capital Assets

- Accounting and reporting first *required* by GASBS 34
- Governments were given extra time to capture infrastructure asset data
  - Allowed to use estimated costs
  - Only required to capitalize major infrastructure assets acquired since 1981
  - Small governments not required to capture existing infrastructure asset information
  - Governments may use modified approach for infrastructure in lieu of depreciation
Note Disclosures

- Often the section of Basic Financial Statements that takes up the most number of pages
- GASB has two lists of notes in *Codification* [Page 535]
  - Essential for fair presentation of the Basic Financial Statements
  - Additional note disclosures, if applicable
- Governments may present information beyond what is in these two lists, but shouldn’t present unnecessary or redundant information
Required Supplementary Information

Management’s Discussion and Analysis (MD&A)

- New requirement under GASBS 34
- Presented after auditor’s opinion but before financial statements (RSI traditionally placed after the notes to the financial statements)
- Standard provides 8 elements which must be presented in MD&A, if applicable – governments may *not* present other items [Page 537]
- Example included in Appendix 13-1
Other RSI

- Budgetary comparison schedules not included in Basic Financial Statements
- Certain 10-year historical trend data for defined benefit Public Employee Retirement Systems
- Certain presentations required for public entity risk pools
- Disclosures required by governments that use the modified approach in accounting & reporting for infrastructure
Final Note on Minimum External Financial Report (MEFR)

- Recall that MEFR includes:
  - MD&A
  - Basic Financial Statements
  - Other RSI

- When preparing report, government could exclude MD&A and Other RSI and still receive an unqualified opinion

- HOWEVER, auditor must not absence of these elements in opinion
Special Purpose Governments (SPGs)

- Some – like school boards – may present same financial statements discussed here
- More restricted SPGs may have only one function – governmental activities or business-type activities
  - Would present only statements required for particular function
  - MD&A, notes, and other RSI would be limited as well