Principles of Accounting and Financial Reporting for State and Local Governments
Learning Objectives

1. Explain the nature of the three major activities of a state or local government: governmental activities, business-type activities, and fiduciary activities.

2. Explain the components of the Governmental Accounting Standards Board’s (GASB) integrated accounting and financial reporting model, including:
   - Elements and measurement approaches
   - Government-wide financial statements
   - Fund financial statements
   - Definition of fund and principles of fund accounting
   - Types of funds in each fund category and characteristics of each fund type.
Learning Objectives

3. Discuss the nature of major fund reporting and the criteria used to determine whether a fund should be reported as a major fund.
Activities of Government

Governmental Activities
Chapters 3-6

Business-type Activities
Chapter 7

Fiduciary Activities
Chapter 8
Financial Reporting Model

- Basic Financial Statements
  - Government-wide
  - Fund
Elements of Financial Statements

- Assets, which are resources with present service capacity that the government presently controls.
- A deferred outflow of resources, which is the consumption of net assets by the government that applies to a future reporting period.
- Liabilities, which are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- A deferred inflow of resources, which is the acquisition of net assets by the government that applies to a future reporting period.
Elements of Financial Statements

- Net position is the residual when assets + deferred outflows – liabilities – deferred inflows is calculated (net position appears in a statement of financial position).

- An inflow of resources is the acquisition of net assets by the government in the current reporting period (e.g., revenues and other resources).

- An outflow of resources is the consumption of net assets by the government in the current reporting period (e.g., expenses, expenditures and other uses of resources).
Government-wide Financial Statements

- **Measurement Focus**
  - Economic Resources

- **Basis of Accounting**
  - Accrual

- **Accountability**
  - Operational
Government-wide Financial Statements

Statement of Net Position
- Reports year end financial position
- Most comparable to a business’ balance sheet

Statement of Activities
- Reports expenses and revenues classified by program or function
- Uses separate columns for governmental activities, business-type activities, and component units
Fund Financial Statement Focus

- Fiscal accountability
- Flow of current financial resources
- Modified accrual basis

Governmental Funds

- Operational accountability
- Flow of economic resources
- Accrual basis

Proprietary Funds

- Operational accountability
- Flow of economic resources
- Accrual basis

Fiduciary Funds

- Operational accountability
- Flow of economic resources
- Accrual basis
Fund Financial Statements

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

Proprietary Funds
- Statement of 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
Governmental Activities
Reconciliations

Because governmental activities are reported using the accrual basis in the government-wide financial statements, but are reported using modified accrual basis in the government funds financial statements, fund balances and operating results on fund financial statements must be reconciled to those presented in the government-wide financial statements.
Fund reporting was developed to meet the challenge of reporting revenues and related expenditures that are legally or contractually constrained for specific purposes separately from revenues and expenditures without such constraints.
The concept of *fund* is fundamental to government accounting and reporting.

A fund is a separate fiscal entity, which means it has its own resources, its own liabilities, and its own operating activity for the fiscal period.

Furthermore, a fund conceptually has its own set of accounting records allowing it to prepare separate financial statements. Thus, it is a separate accounting entity as well.
## Fund Categories

### Governmental Funds

<table>
<thead>
<tr>
<th>General Fund</th>
<th>Special revenue funds</th>
<th>Debt service funds</th>
<th>Special projects funds</th>
<th>Permanent funds</th>
</tr>
</thead>
</table>
Fund Categories

<table>
<thead>
<tr>
<th>Proprietary Funds</th>
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</thead>
<tbody>
<tr>
<td>Internal service funds</td>
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</table>
### Fund Categories

#### Fiduciary Funds

<table>
<thead>
<tr>
<th>Agency funds</th>
<th>Trust funds</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>• Pension trust funds</td>
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<tr>
<td></td>
<td>• Investment trust funds</td>
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<tr>
<td></td>
<td>• Private-purpose trust funds</td>
</tr>
</tbody>
</table>
Fund Balance Classifications

Nonspendable

Restricted

Committed

Assigned

Unassigned
Major Fund Reporting

- Governments may have many different funds, but users are likely to be most interested in information about funds with larger dollar amounts.

- GASB requires separate columns for all major funds, while nonmajor funds may be grouped together and reported in a single column.
Major Fund Determination

Major Funds include the General Fund and any fund meeting both of the following:

- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 10 percent of the corresponding element total for all funds of that category or type.
- The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
Nonmajor Fund Reporting

Although GASB requires nonmajor funds to be reported in a single column, many governments report details regarding the nonmajor funds in supplementary combining financial statements as a part of the CAFR.
Looking Forward

- Budgetary Accounting
- Classification of Revenues and Expenses and Revenues and Expenditures
- Dual-track approach