Chapter 2

Principles of Accounting & Financial Reporting for State & Local Governments
Types of Activities

- Governmental
- Business
- Fiduciary
Governmental Activities

- Fiscal Accountability
- Budgetary Compliance
- Current Financial Resources
Business Activities

- Operational Accountability
- LT Maintenance
- Cost of Services
Fiduciary Activities

- Operational Accountability
Accounting Principles

- NCGA Developed
- GASB Adopted
- Reporting Objectives
1. Accounting & Reporting Capabilities

- Use GAAP to Present Fairly with Full Disclosure
- Compliance with Legal & Contractual Provisions
2. Fund Accounting System

♦ Organize & Operate Accounting System on a Fund Basis
A Fund is:

- Functional
- Fiscal
- Legal
- Entity
FUND

A = L + FB

FUND

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FUND

A = L + FB
3. Types of Funds

- Emphasis on Fiscal Responsibility

4. Number of Funds

- Required by Law
- Minimize
5. Reporting Capital Assets

- General Capital Assets
  - Do Not Record in Fund
  - Government-wide fin. stmts

- Proprietary Capital Assets
  - Record in Fund
  - Government-wide & Fund fin. Stmts
Reporting Capital Assets

- Fiduciary Capital Assets
- Statement of Fiduciary Net Assets
6. Valuation of Capital Assets

- Cost or Estimated Cost
- Donated Assets @ FV on Date Received
7. Depreciation of Capital Assets

- Over Estimated Useful Lives
- Not Inexhaustible Assets
- Modified Approach - Infrastructure Assets
- Report in Govt-wide Stmts, Proprietary Fund Stmts & Fiduciary Fund Stmt
8. Reporting Long-Term Liabilities

- General Long-Term Liabilities
  - Govt-wide Fin. Stmts
- Proprietary Long-Term Liabilities
  - Govt-wide & Fund Fin. Stmts
- Fiduciary Long-Term Liabilities
  - Stmt of Fiduciary Net Assets
9. Measurement Focus & Basis of Accounting

- Governmental Activities/Funds
  - Modified Accrual
- Business Activities/Funds
  - Accrual
- Fiduciary Activities/Funds
  Accrual
Characteristics of Fund Types

- Governmental
  - Current Financial Resources/Spending Measurement Focus
  - Fiscal Accountability
  - Modified Accrual Accounting

- Revenues: Measurable & Available
- Expenditures: Goods Received or Liability Incurred
Characteristics cont’d

- Governmental cont’d
- Capital Assets & LT Liab not Recorded in Fund
... Characteristics

- Proprietary
  - Economic Resources/Capital Maintenance Measurement Focus
  - Operational Accountability
  - Accrual Accounting
    - Revenues: Earned
    - Expenses: Incurred in Earning Revenue
Characteristics cont’d

- Proprietary cont’d
- Capital Assets & LT Liabs Recorded in fund
... Characteristics

- Fiduciary
  - Economic Resources
  - Measurement Focus
  - Accrual Accounting
Specific Funds Within Fund Types

- Governmental Funds (Modified Accrual)
  - General Fund
  - Special Revenue Fund
  - Debt Service Funds
  - Capital Project Funds
  - Permanent Funds
... Specific Funds

- Proprietary Funds (Accrual)
  - Internal Service
  - Enterprise
... Specific Funds

- Fiduciary Fund
- (Accrual)
  - Trust
    - Pension
    - Investment
    - Private Purpose
- Agency
... Accounting Principles

10. Budgeting, Budgetary Control & Reporting

- Adopt Budget
- Establish Controls
- Compare to Actual
- Budgetary Accounts
11. Transfers, Revenue, Expenditure & Account Classifications

- Inter-fund Transactions & LT Debt Proceeds Different
- Other Financing Sources & Uses
12. Common Terminology & Classification

- Consistent Use Throughout Budget Accounts & Financial Reports
- Classify Revenues
- Classify Expenditures
- Revenues & Expenses Classified Like a Business
13. Interim & Annual Financial Reports

- Prepare Interim Reports
- CAFR Recommended
- Primary Government as Financial Reporting Entity
  - All Component Units
Primary Government (PG)

- State Government
- General Purpose Local Government
- Special Purpose Government
  - Separately Elected Governing Body
  - Fiscally Independent
Special Purpose Governments (SPG)

- Legal Separation
- Separately Elected Governing Board
- Fiscally Independent
SPG Fiscal Independence

- Determine Own Budget
- Levy Taxes & Set Rates
- Issue Bonds
Component Unit (CU)

- Legally Separate
- PG Financially Accountable
Example

- Hospital District Located in Certain County
- Governed by Board of Trustees
- County Appoints Trustees
- County Approves Budget
Example

- School District with Independently Elected Governing Board
- County Approves Budget & Tax Rates
Example

- City Public Power Authority
- Independently Elected Governing Board
- Authority Issues Bonds
GASB 14

- Discrete Presentation
- Blending Presentation
Blending Presentation

Only When:

- Two Boards Substantively Same
- Provide Service Solely to PG
Financial Statements

- Government-Wide Financial Statements
- Fund Financial Statements
Government-Wide Financial Statements

- Governmental & Business-Type Activities
  - Statement of Activities
  - Statement of Net Assets
  - Component Units
Fund Financial Statements

- Major Fund
- Aggregate Others
Major Fund

- Assets, Liabilities, revs, Expend/expenses 10% ≥ fund type
- Assets, Liabilities, Revs, Expend/expenses 5% ≥ all funds
Fund Financial Statements

- Statement of Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Assets
- Balance Sheet/Statement of Net Assets