



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% \geq fund type
- ◆ Assets, Liabilities, Revs,
Expend/expenses 5% \geq all funds



Fund Financial Statements

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

