Governmental Accounting & Financial Reporting

Introduction to Local Government Finance
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Basic Principles of Governmental GAAP

- Fund accounting
- Measurement focus
- Basis of accounting
- Budgeting & financial reporting issues

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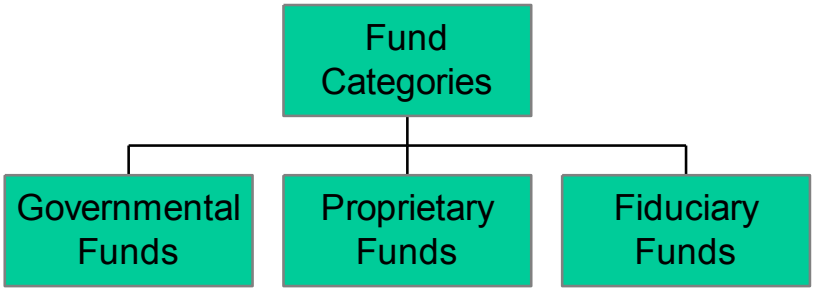
Fund Accounting Structure



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Fund Accounting (cont.)

- Governmental types
  - General
  - Special revenue
  - Debt service
  - Capital projects
  - Permanent

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Fund Accounting (cont.)

- Proprietary types
  - Enterprise
  - Internal service

Fund Accounting (cont.)

- Fiduciary
  - Pension
  - Private-purpose trust
  - Investment trust (not in NC)
  - Agency

Quick Review of Governmental GAAP

- Governmental GAAP requires the use of fund accounting
  - Three fund categories, each subdivided into fund types
- Measurement focus
  - Governmental vs. proprietary/fiduciary funds
- Basis of accounting
  - Governmental vs. proprietary/fiduciary funds

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Governmental Fund MFBA

- Current financial resources measurement focus
- Modified accrual basis of accounting
  - Only **financial assets** are reported within governmental funds
  - Only **current liabilities** are reported within governmental funds
  - The budgetary basis of accounting and the GAAP basis of accounting are the same in NC

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Governmental Fund Equity

- Fund balance represents the nature of a governmental funds' *financial* or *spendable* equity
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned

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Governmental Fund Equity

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Governmental Fund Equity

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Governmental Fund Equity

1. **Nonspendable**

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Governmental Fund Equity

1. Nonspendable
2. **Restricted**

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Governmental Fund Equity

1. Nonspendable
2. Restricted
3. **Committed**

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Governmental Fund Equity

1. Nonspendable
2. Restricted
3. Committed
4. **Assigned**

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Governmental Fund Equity

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. **Unassigned**

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Proprietary/Fiduciary Fund MFBA

- **Economic resources measurement focus**
- **Accrual basis of accounting**
  - **All** financial and nonfinancial assets are reported within proprietary/fiduciary funds
  - **All** current and long-term liabilities are reported with proprietary/fiduciary funds
- Budgetary basis of accounting in North Carolina is remains the modified accrual basis

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Proprietary/Fiduciary Fund Equity

- Net position represents the nature of proprietary/fiduciary funds' **economic** equity
  - Net investment in capital assets
  - Restricted
  - Unrestricted

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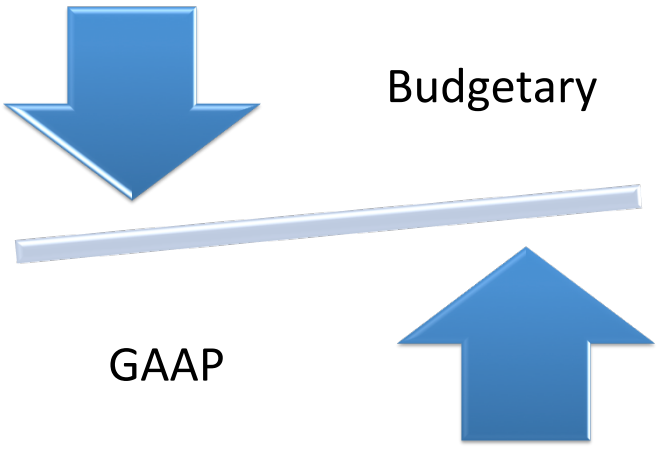
How do we reconcile budgetary and GAAP requirements?

- State statutes require adherence to *both* budgetary and GAAP requirements
  - Which one "trumps" the other?
  - Do we focus on budgetary or GAAP reporting?
- What is the rational for the two perspectives?
  - Different information for different users
  - Proven need for both types of information

How do we reconcile budgetary and GAAP requirements?



External Budgetary Reporting

- What are the requirements?
  - Reporting on a budgetary basis for all funds for which a budget is adopted
  - Report at the legal level of budgetary control (departmental or function level in NC)
  - GAAP requirements also includes non-GAAP information

External Budgetary Reporting

- GAAP (and NC) budgetary reporting requirements
  - General and major special revenue funds in basic financial statements
  - Original and amended budgetary amounts must be reported for
    - General fund
    - Major special revenue funds

External Budgetary Reporting

- GAAP reporting requirements (cont.)
  - Note disclosures
    - Summary of significant accounting policies
    - Compliance issues

Overview of Reports

- Interim reports
- Year-end reports
- Basic financial statements
- Comprehensive annual financial reports

INTERIM REPORTS

- Prepared for internal use
- Monthly budget-to-actual report is most common
- Other reports may be prepared
- Reports are not usually prepared in accordance with GAAP

YEAR-END REPORTS

- Fiscal year end – June 30
- "Official" financial statements prepared primarily for external users
- Financial information that is being subjected to the annual audit
- All governments in NC must prepare **basic financial statements**
- Some governments opt to prepare a CAFR

BASIC FINANCIAL STATEMENTS

- Minimum presentations required in order to be compliant with generally accepted accounting principles (GAAP)
  - Government-wide financial statements
  - Fund financial statements
  - Note disclosures
- Required supplementary information
  - MD&A

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

- CAFRs are not required by GAAP
- Approximately 185 counties, cities, school districts and public authorities currently prepare CAFRs in NC
- Three sections
  - Introductory
  - Financial
  - Statistical

Questions?

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