FINANCIAL INSTITUTIONS REFORM AND EXPANSION PROJECT

Debt Market / Infrastructure Component

GOVERNMENTAL ACCOUNTING STANDARDS IN THE USA

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GOVERNMENT ENVIRONMENT

A. To properly assess why governments have a unique accounting and a separate accounting standard-setting body, one must first understand the environment in which governments operate.

B. Three characteristics have been identified that significantly influence the government environment.

1. Structure of government - various levels and branches of government create a system of checks and balances.

2. Nature of resource providers - in the commercial sector there is a direct relationship between goods or services provided by a company and the price paid by the customer. However, in the government environment this relationship does not exist for many transactions financed through tax resources. In these instances, the taxpayer is in effect an involuntary resource provider.

3. Political process - pressure on elected officials to provide the maximum amount of services at the lowest possible revenue level. This may lead to future years' taxpayers financing goods and services that are currently being provided by the government.

C. Because of the environmental influences just noted, governments have established certain controls to maintain the integrity of budgeting, accounting and financial reporting. These controls include:

1. Legally adopted budgets - as will be discussed in further detail later in the day, budgets that are legally controlled are unique to government.

2. Fund accounting - although the reliance on the ability to segregate monies for specific purposes has been reduced with the introduction of more sophisticated accounting systems, fund accounting remains a primary element in demonstrating accountability.

3. Internal control structure - this new term was introduced in the American Institute of Certified Public Accountant's (AICPA) Statement on Auditing Standards No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit. The internal control structure encompasses those policies and procedures established by management to provide reasonable assurance that specific entity objectives (e.g., compliance with legal requirements) will be achieved (referred to in the past as accounting and administrative controls). The internal control structure contains three distinct elements: (1) control environment; (2) accounting system; and, (3) control procedures.

D. These controls are specifically influenced by the accounting standard-setting process. The Governmental Accounting Standards Board (GASB) was established to fulfill this role in 1984, because there were many questions concerning who was authorized to set Generaly Accepted Accounting Standards (GAAP) for state and local governments.

E. The five-person board, based in Norwalk, CT, was created under the auspices of the Financial Accounting Foundation (FAF)

F. The GASB was established as the primary standard setter for governments. However, several other organizations including the Financial Accounting Standards Board (FASB) can influence government accounting standards.

G. One of the GASB's first projects was to define the objectives of governmental financial reporting. GASB Concept Statement No. 1, Objectives of Financial Reporting, identified three primary users of government financial reports:

1. Citizen groups - taxpayers, voters, public interest groups, the media
2. Legislative and oversight bodies - state legislatures, county boards, city councils, school boards, boards of trustees

3. Investors and creditors - individual and institutional investors, securities underwriters, bond rating agencies, bond insurers

H. GASB Concepts Statement No. 1 also established three primary objectives of financial reporting and nine basic objectives. These primary objectives, including the paramount objective of accountability and the objective of measuring interperiod equity, are:

- Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.

- Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.

- Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.

I. The GASB will be using these objectives as a guide when future pronouncements are developed.

J. The first of 12 basic principles states that a governmental accounting system must make it possible both to: (1) present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the government in conformity with GAAP, and (2) determine and demonstrate compliance with finance-related legal and contractual provisions.

K. GAAP reporting and legal compliance reporting are not mutually exclusive.

1. Many of the GAAP disclosures (fund and fund type segregations, required budgetary comparisons, etc.) are designed specifically in part, to explicitly demonstrate compliance with finance related legal and contractual provisions.

2. In addition, GAAP require disclosure in the notes to the financial statements of material violations of legal and contractual provisions.

   a. The most common violations of legal requirements usually relate to budgetary requirement (e.g., overspending a budget appropriation at the legal level of budgetary control) and revenue bond indentures (e.g., allocating restricted assets in required accounts).

L. In these pronouncements, it is clear that neither GAAP nor legal compliance take "precedence" in governmental financial statements. Both are essential. When legal provisions conflict with GAAP, governments should prepare basic financial statements in conformity with GAAP and also present such supporting schedules, in addition to the GAAP based basic financial statements, as may be necessary to report clearly upon their legal compliance responsibilities and accountabilities.

FUND ACCOUNTING

A. As previously noted, in governmental accounting individual resources are allocated to, and accounted for, in separate accounting entities, identified as funds, based upon the purposes for which they are to be spent and the means by which spending activities are legally controlled.

1. Governmental GAAP financial statements emphasize reporting by fund and fund type rather than consolidated reporting for the government as a whole.

2. This means that separate data must be maintained in the accounting records for each individual fund.

B. Only the minimum number of funds consistent with legal and operating requirements should be established.

C. Later pronouncements classified all individual funds into three broad categories--governmental (i.e., general, special revenue, debt service, capital projects); proprietary (i.e., enterprise and internal service); and fiduciary (i.e., trust and agency).

D. These pronouncements provided the general guidance regarding when each fund type should be used.

1. The general fund should be used to account for all financial resources except those required to be accounted for in another fund. Standards preclude the reporting of multiple general funds.

2. With one exception, the use of special revenue funds is required only if they are legally mandated. This fund type can be used for specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

   a. Primary examples of activities currently accounted for in special revenue funds include federal and state grants and specific tax resources (e.g., gas tax).

   b. As mentioned earlier, the use of subfunds or accounts within an accounting system can substantially reduce the number of funds used without compromising sound financial management.

3. Debt service funds are required only if they are legally mandated and/or if financial resources are being accumulated for principal and interest payments maturing in future years (e.g., for term bonds or deep discount bonds).

4. Capital projects funds should be used to account for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

5. Enterprise fund classification criteria permit governments to employ this fund type for any service for which there exists a significant potential for financing through user charges, even if the governing body decides not to finance the service 100 percent through user charges, but rather to subsidize the service from general governmental resources. Common examples of enterprise fund activities include water and sewer operations, public transportation, public financing and public housing.

6. Internal service funds are used to account for the providing of goods or services to other funds or other governments on a cost reimbursement basis. Examples of internal service fund activities include central garages, motor pools, duplicating and printing services, data processing, communications and risk management.

7. The use of expendable and nonexpendable trust funds generally should be limited to instances where a formal legal trustee relationship exists.

   a. If a trustee relationship does not exist, the special revenue fund classification usually is appropriate.

   b. The difference between the two types of trust funds relates to the use of the fund principal.

      1) In an expendable trust fund, both the principal and earnings thereon may be expended.

      2) However,in a nonexpendable trust fund, only the earnings on the principal may be expended and the principal must remain intact.

8. Pension trust funds should be used to account for single employer pension plans (usually in local governments), or for multiple-employer pension plans (usually in the state government reporting entity).

9. Agency funds are used to temporarily hold resources that belong to others.

   a. For example, a county reporting entity may collect property taxes for all taxing bodies located within the county and report the tax receipts as assets and liabilities of the agency fund until distributed.

   b. 1987 Codification, Section D25 (GASB 2) requires most employers to report deferred compensation plans adopted under the provision of Internal Revenue Code Section 457 in an agency fund.

10. The use of the special assessment fund type has been discontinued for GAAP reporting purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

A. The measurement focus and basis of accounting used to account for transactions are the driving force behind any accounting model.

B. Measurement focus refers to what the financial statements are trying to present, and which resources are being measured to achieve that goal.

C. Basis of accounting refers to when the effects of the transaction and/or events are recognized in the financial statements.

D. There is a clear distinction between measurement focus and basis of accounting with certain models; however this distinction can become somewhat vague with others, as when the effect of what is being measured dictates when a transaction is recognized.

E. Currently three types of measurement focus and three bases of accounting are either used in practice or being proposed by the GASB.

Measurement Focus	Basis of Accounting
Flow of Economic Resources	Accrual
Flow of Total Financial Resources	Modified Accrual
Flow of Current Financial Resources	Cash

1. The basic model uses a flow of current financial resources measurement focus and a cash basis of accounting. This model is based on the measurement of sources, uses and balances of financial resources that are received in cash within a specified period of time. This time period may vary. With the cash basis of accounting, recognition of transactions is limited to receipts and disbursements that occur during the period.

2 Many governments still use a cash basis model.

a. In fact, some state laws still require a cash basis model for external financial reporting.

b. This is extremely unfortunate, because cash basis accounting and reporting are not desirable practices.

c. Cash basis financial statements omit recognition of assets and liabilities not arising from cash transactions.

1) Accordingly, they ignore the effect upon financial position and results of operations of accounts receivable, accounts payable, and other accrued items.

2) Because these items are commonly of significant dollar magnitude, cash basis financial statements rarely present financial position or results of operations in conformity with GAAP.

3) The only instance in which cash basis financial statement representations are in conformity with GAAP is in the unlikely

situation where all accounts receivable, accounts payable and other accrued items are nonexistent or immaterial.

d. Cash basis accounting permits distortions in financial statement representations due to shifts in the timing of cash receipts and disbursements near the end of a fiscal period.

e. Cash basis financial statements also are subject to "manipulation" because their reported operating results can be affected by speeding up and/or slowing down cash collections and payments near the end of the fiscal period.

3. The most complex model used in current practice is a flow of economic resources measurement focus and accrual basis of accounting. Economic resources can be defined as all financial resources, as well as all assets of a fixed or permanent nature. This model measures the sources, uses and balances of economic resources regardless of when or if they will be received or disbursed in cash. To measure economic resources, the accrual basis of accounting must be used.

   a. From a theoretical standpoint, this model eliminates many of the criticisms of the cash basis model.

   b. For example, the application of accrual accounting techniques prevents distortions in financial statement representations due to shifts in the timing of cash flows near the end of a fiscal period.

4. Under this model, revenues are recognized in the accounting period in which they are earned and become measurable.

   a. When a revenue is earned, the reporting entity has provided the service.

   b. "Measurable" means the amount can be determined reasonably.

   c. For example, a government provides water service to its customers.

      1) The revenue is earned when the water is used by the customer.

      2) The revenue is measurable when the water meters are read or the amount of usage can be estimated based on experience.

      3) After the meters are read, the water usage would be considered revenue regardless of when the customer pays the bill.

5. Using the flow of economic resources measurement focus and accrual basis of accounting model expenses should be recognized in the period incurred, if measurable.

   a. For an expense to be incurred, the item purchased must be received and used or the service purchased must be performed.

b. For an expense to be measurable, the amount must be determined. This is normally done when the invoice is received.

This model is used for the proprietary funds, nonexpendable trust funds and pension trust funds.

6. The model currently used by governmental funds falls between the two models that were just discussed. The governmental funds model is based on a flow of current financial resources measurement focus and a modified accrual basis of accounting. This model also is used in accounting for expendable trust funds.

7. As stated earlier, the primary differences between the accrual basis of accounting and the modified accrual basis of accounting is when transactions are recognized.

a. Under the modified accrual basis, revenues are recognized when they become "available to finance expenditures of the current period.

1) The requirement that revenues be "measurable" before they are recognized is not unique to the modified accrual basis of accounting. Revenues are never recognized before they are "measurable" under either the modified accrual or accrual basis of accounting.

2) Revenues are considered measurable if the amount of the transaction can be reasonably determined. For example, fines and forfeits, golf and swimming fees, inspection charges, parking meter receipts and similar revenues generally are not considered "measurable" until received in cash.

3) Such revenues should nevertheless be accrued if their receipt is delayed beyond its normal occurrence. Conversely, revenues received in advance should be recorded as deferred revenue.

4) The requirement that revenues be "available" before they are recognized, on the other hand, distinguishes modified accrual basis revenue recognition from that of accrual basis.

5) In practice, reporting entities have been interpreting the term "available" differently. This has impeded progress toward improved governmental financial statement comparability.

b. Reporting entities generally interpret "available" in one of three ways:

1) Physically available (collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period).

2) Legally available (not legally restricted to be used to finance expenditures of a subsequent period)

3) Administratively available (not previously designated by management to finance expenditures of a subsequent period).

c. Financial statement comparability is further impaired because all reporting entities that interpret "available" as physically available do not interpret "soon enough thereafter to be used to pay liabilities of the current period" in the same way. Alternative interpretations include:

1) Within a period of time after year end equal to the government's normal bill paying cycle.

2) Within a specified standardized period of time after year end (e.g., 30, 60 or 90 days).

3) Within 12 months after year end (i.e., the item is a current asset at year end)

d. Under the modified accrual basis, governmental fund type expenditures generally are recognized when the related liability is incurred and will be paid from current resources. Exceptions to this general rule are:

1) Inventories of materials and supplies that may be considered expenditures either when purchased or used.

2) Prepaid insurance and similar items that need not be reported.

3) Accumulated unpaid vacation, sick pay and other employee benefit amounts that are to be accrued as liabilities for GAAP reporting purposes, but are to be recognized as expenditures and fund liabilities only to the extent that they are expected to be liquidated with expendable available financial resources.

4) Principal and interest on long-term debt that generally are recognized when due.

8. Agency funds use a modified accrual basis of accounting to record assets and liabilities. Because agency funds do not have operations, a measurement focus is not employed.

F. In applying the flow of financial resources measurement focus and modified accrual basis of accounting to the governmental funds, several specific items warrant further discussion.

1. Property taxes should be recorded as receivables and recognized as revenue in accordance with standards.

a. Property taxes, net of estimated uncollectibles, should be recorded when levied.

b. Under the governmental model, any uncollectible amount should be charged against revenues and not reported as an expenditure.

c. Property taxes should be recorded as revenue in the period for which they are levied (budgeted) when they are:

1) Due and receivable within the current year.

2) Collected within the current year or expected to be collected no more than 60 days after the end of the current year.

a) Use of the 60-day period generally is considered optional.

b) A period of less than 60 days (e.g., 30 days) may be used.

2 Inventories of materials and supplies may be recognized as expenditures, under the modified accrual basis, using either the purchases method or the consumption method.

a. Using the purchases method, inventories are recorded as expenditures when they are acquired, regardless of when they are used.

b. Using the consumption method, inventories are recorded as expenditures when they are used.

c. Whether the purchases or consumption method should be used is generally determined by the budgetary methodology employed by the government.

1) If inventories are budgeted as expenditures, when acquired, the purchases method normally should be used.

2) If inventories are budgeted as expenditures when used, the consumption method should be used.

d. All material inventories must be reported on a governmental fund type balance sheet, regardless of whether the purchases or consumption method is used.

e. When the purchases method is used, reported inventories are equally offset by a fund balance reserve account.

1) Because such amounts were charged as expenditures when they were acquired they cannot be "spent" again.

2) The fund balance reserve account indicates that inventories reported under the purchases method do not represent "available spendable resources" even though they are a component of net current assets.

f. The summary of significant accounting policies (SSAP) in governmental financial statements should indicate whether governmental fund type inventories are accounted for using the purchases method or the consumption method.

3. Prepaid Insurance and similar items, under the modified accrual basis, need not be reported.

   a. When such items are reported, however, they are offset equally by a fund balance reserve account.

   b. Like inventories reported under the purchases method, prepaid items do not represent "available spendable resources," even though they are a component of net current assets.

   c. The SSAP in governmental financial statements should specify the modified accrual basis treatment of prepaid items.

4. Noncurrent portions of long-term loans receivable are offset by reserved fund balance accounts.

5. Fixed assets held by governmental funds for resale may be reported on their balance sheets as investments.

6. Fixed assets used in governmental fund operations, as previously noted, are accounted for in the general fixed assets account group rather than in governmental funds.

   a. When a government fund purchases a fixed asset for general government use, it should be recorded as follows:

General Fund	DR	CR
Expenditure control	XXX	
Cash		XXX

General Fixed Asset Account Group	DR	CR
Fixed assets	XXX	
Investment in general fixed assets--general fund		XXX

   b. Depreciation of general fixed assets may be recorded in supplementary accounting records for internal programmatic performance evaluation and productivity assessment purposes or for reimbursement through intergovernmental grant programs,

   c. Depreciation should not, however, be recorded in governmental fund general ledger accounts,

   d. Neither should it be reported in governmental fund GAAP financial statements.

7. Compensated absences liabilities, in accordance with stadards should be calculated using the followig criteria:

a. Accrual of the liabilitiesfor future vacation and other leave benefits that meet all of the following conditions:

1) The employer's obligations relating to employee's rights in receiving compensation for future absences is attributable to employee services already rendered.

2) The obligation relates to rights that vest or accumulate. If sick pay accumulate but does not vest, it need not be reported.

3) The payment of compensation is probable.

4) The amount can be estimated reasonably.

b. If all of these conditions are met, the amount of compensated absences recorded as expenditures in governmental funds shall be the amount accrued during the period that normally would be liquidated with "expendable available financial resources."

c. Because governmental fund balance sheets reflect current liabilities, only the current portion of the liability should be reported as a fund liability.

d. The current portion is the amount left unpaid at the end of the reporting period that also normally would be liquidated with expendable available financial resources.

e. Various reporting approaches are currently used in practice to define "expendable available financial resources" including the following:

1) Budgetary approach

a) Based on a last-in, first-out (LIFO) flow assumption for the use of compensated absences, most liabilities would be considered long-term.

i) For example, an employee has 15 days of accrued vacation pay at year end and will earn 10 days next year. Under the LIFO approach if the employee takes 7 days of vacation next year, it will come out of the 10 days earned in the second year.

ii) This approach is only used to determine the liability classification and is not used in valuing the liability.

b) with this approach, most compensated absence liabilities are reported in the general long-term debt account group.

2) Undesignated fund balance approach/total fund balance

a) This approach is based on defining expendable available financial resources as "unreserved, undesignated fund balance."

b) The fund liability for compensated absences would be based on this amount with the remaining portion of the liability being reported in the general long-term debt account group.

c) For example, if a government has an unreserved , undesignated fund balance of $15,000 (before compensated absences) and compensated absences liabilities of $25,000, $10,000 of the liability would be reported in the general long-term debt account group and $15,000 would be reported as a fund liability.

3) Current payment approach

a) Under this approach, a fund liability is defined as one expected to be liquidated during the current payment cycle.

b) This payment cycle could be two weeks, 30 days, 60 days or it may be equal to the time period for recognizing revenues as "available."

c) This approach was rejected in later GAAP standards, however, it is still used in practice.

4) With these approaches, a fund liability for compensated absences can range from zero to the total amount.

f. The remainder of the liability should be reported in the general long-term debt account group.

g. Because they do not affect net current assets, such long-term amounts are not recognized as governmental fund expenditures or fund liabilities.

h. The liabilities should be recorded in the general long term debt account group as follows:

	DR	CR
Amount to be provided for compensated absences	XXX	
Compensated absences payable		XXX

8. Capital leases reported in accordance with the following standards.

a. The terms of the lease meet the criteria to be classified as a capital lease.

b. The existence of a fiscal funding clause should not preclude the classification od the lease as a capital lease.

c. Transactions for capital leases are recorded as follows:

General Fund-Date of Lease Agmt	DR	CR
Expenditure control	XXX	
Other financing sources control		XXX

General Fixed Asset Account Group	DR	CR
Fixed assets	XXX	
Investment in general fixed assets		XXX

General Long-Term Debt Account Group	DR	CR
Amount to be provided for capital leases	XXX	
Capital leases payable		XXX

General Fund--Lease Payment	DR	CR
Expenditure control	XXX	
Cash		XXX

General long-Term Debt Account Group	DR	CR
Capital leases payable	XXX	
Amount to be provided for capital leases		XXX

BUDGETING AND BUDGETARY REPORTING

A. As mentioned earlier, budgets have an important control function in the government environment. In the commercial sector, budgets are primarily used as an internal management tool, whereas the budget has both internal and external value in government.

B. Because of the public nature of government monies, parties both inside and outside the government participate in the development of annual operating budgets.

C. In this manner citizens, taxpayers, governing bodies, government employees and other compete with each other to have scarce government resources allocated to their own preferred government programs.

D. Budgets can be developed based on several theories (e.g., zero-base) or length of time (e.g., project length) and the discipline has no body of generally accepted standards. However, based on the legal status of the budget and the importance of demonstrating legal compliance, budgets play a significant role in governmental accounting and financial reporting. American stadards specifically state that budgetary compliance is a paramount consideration in government.

E. Annual appropriated (i.e., operating) budgets are the primary means by which most of the financing, acquisition, spending and service-delivery activities of government are controlled legally.

1. The use of annual operating budgets usually is prescribed by state law. Even where not required by law, however, annual operating budgets are essential to sound financial management and should be adopted by every government.

2. The annual operating budget should be viewed both as a:

   a. Collection of separate legal budgets for individual funds.

   b. Comprehensive planning and control device for the government as a whole.

3. Governing boards generally formally adopt annual operating budgets for individual funds separately to establish legal authorization for their spending.

4. Legal authorization for the spending of individual debt service and capital projects funds sometimes is provided indirectly by governing body approval of bond ordinances, intergovernmental grant agreements and special assessment rolls.

F. Once adopted, a government's annual operating budget(s) is formally enacted into law through the passage of an appropriations act or ordinance. It thus becomes the legal authority for all government spending. It establishes spending limits that cannot be exceeded legal and spending mandates.

G. The annual operating budget(s) is also a key element in the computation of the amount of a government's annual tax levy. Once the annual expenditure budget is approved, a government must levy sufficient taxes to balance the budget.

H. Some believe, as stated in government standards that annual operating budgets should be prepared, whenever possible, in conformity-with GAAP. They base this conclusion on the following:

1. The basis on which the budget is prepared determines the basis upon which the accounting records are maintained and upon which interim and annual budgetary comparisons are prepared.

2. The use of a budgetary basis other than GAAP unnecessarily-complicates the budgeting, accounting and financial reporting process.

3. When the budget basis differs from GAAP, governments must:

   a. maintain the accounts and prepare interim and annual budgetary comparisons on the budgetary basis.

   b. maintain sufficient supplemental records to permit the preparation of annual GAAP financial statements.

   c. reconcile differences between the budgetary basis and GAAP.

4. The governmental fund type current financial resources (current model) measurement focus and the modified accrual basis of accounting are designed specifically to facilitate budgetary planning and control.

I. Gvernment standards recommend the formal integration of budgetary accounts into the general ledgers of governmental funds.

1. Formal budgetary integration as essential for general and special revenue funds.

2. Formal budgetary integration often is confusing to persons unfamiliar with governmental accounting, but it need not be so.

   a. Budgetary accounts report estimated amounts. They are thus quite different from actual accounts, which report real revenues, expenditures, assets, liabilities and fund equity amounts.

   b. Budgetary accounts are used to record the legally adopted annual operating budget(s).

   c. Budgetary accounts are recorded in the general ledger to facilitate control over government revenues and expenditures during the year.

3. In practice, most governments include formal budgetary integration in their subsidiary ledgers, but do not report the budget in the general ledger.

4. The journal entries included in official govermental standard setting publications illustrate the formal integration of an annual operating budget and illustrate the formal integration of a project-length budget.

5. Special combined revenues/estimated revenue ledgers are used to provide management with convenient access, during the budget period, to information on the status of revenues actually realized compared to estimated revenues.

   a. These ledgers are considered the revenue subsidiary ledgers.

   b. In effect, this type of combined ledge format merely combines the budgetary account ESTIMATED REVENUES and the actual account revenues on a single page.

   c. The addition of an unrealized revenues column provides management with a convenient, ongoing visual indication of the amount of still unrealized revenue.

   d. The combined ledger format also facilitates the convenient preparation of interim budgetary comparison financial statements.

6. Special combined expenditures and encumbrances/appropriations ledgers are use to provide management with convenient access, during the budget period, to information on the status of actual expenditures and encumbered amounts compared to appropriations.

   a. These ledgers are considered the expenditure subsidiary ledgers.

b. In effect, this type of combined ledger format merely combines the budgetary account APPROPRIATIONS and the actual accounts encumbrances and expenditures on a single page.

c. The addition of an unencumbered balance (the balance available) column provides management with a convenient, ongoing visual indication of the amount of the appropriation balance still available.

7. If the legally adopted budget is not amended, budgetary account balances remain unchanged until the end of the accounting period.

   a. If the budget is amended, appropriate revisions are posted to the affected budgetary accounts.

   b. When their interim managerial control purposes are served. the balances of budgetary accounts are eliminated in the process of closing he books at year end by reversing the entry(ies) that recorded them.

   c. The formal integration of budgetary accounts into the general ledger affects internal management decision making during the year and the form and content of interim budgetary comparison financial statements.

   d. Budgetary accounts have no effect on the measurement of actual revenues and expenditures or the reporting of actual results of operations in the annual GAAP financial statements.

8. Some governments employ an allotment system as an element of formal budgetary integration.

   a. Under such a system, each annual appropriation is divided into component parts designated for expenditure during a period of time shorter than a year--usually a quarter or a month.

   b. An ALLOTMENTS budgetary account is used in addition to the APPROPRIATIONS budgetary account.

   c. An entry is made at the beginning of each allotment period debiting APPROPRIATIONs and crediting ALLOTMENTS for the portion of the appropriation allotted to the period.

   d. Subsequent expenditures and encumbrances then are controlled by the ALLOTMENTS account rather than by the APPROPRIATIONS account.

J. Encumbrance accounting is a logical extension of the management control technique of formal budgetary integration.

1. Encumbrances are purchase orders or other commitments for goods that have not yet been provided or for services that have not yet been rendered.

2. Encumbrances become expenditures and liabilities only when, and if, goods are actually provided or services actually rendered.

3. In encumbrance accounting, encumbrances are recorded formally in the general ledger as budgetary accounts.

   a. The entry necessary to record an encumbrance follows:

General Fund	DR	CR
ENCUMBRANCES	XXX	
BUDGETARY FUND BALANCE– RESERVED FOR ENCUMBRANCES		XXX

   b. Formal budgetary integration helps to assure that total actual expenditures do not exceed appropriations.

   c. Formal budgetary integration combined with encumbrance accounting helps to assure that total actual expenditures plus related commitments do not exceed appropriations.

   d. Encumbrance accounting alerts government managers to the fact that a particular purchase order, if filled by the vendor, could result in the over-expenditure of an appropriation.

   e. Encumbrance accounting also facilitates effective cash planning and control.

4. The formal use of encumbrance accounting ordinarily should be a continuous and integral part of the general and special revenue funds' accounting cycles.

5. However, the substance of appropriate budgetary control is more important than its form.

   a. In practice, governments frequently do nor encumber certain appropriations prior to the time when actual liabilities are incurred or paid.

   b. For example, salary appropriations for regular full-time employees, which have been fixe for the entire fiscal year and itemized in the annual operating budget, may not be encumbered.

   c. Such amounts are measurable in advance, and they are subJect to additional alternative administrative and personnel controls that effectively prevent over-expenditures.

   d. Formal encumbrance accounting for them, therefore, may not be necessary.

   e. It is also possible, particularly in very small governments, to facilitate appropriate budgetary control through the use of a simple file of outstanding purchase orders.

1) When a particular purchase is proposed, this file is checked to determine whether any encumbrances are outstanding against the relevant appropriation,

2) If so, no commitment can be made unless the unencumbered balance is sufficient to cover the proposed purchase.

6. When an encumbrance has been completed (e.g., an order has been received), the entry necessary to liquidate the encumbrance is a reversal of the original entry.

General Fund	DR	CR
BUDGETARY FUND BALANCE --RESERVED FOR ENCUMBRANCES	XXX	
ENCUMBRANCES		XXX

7. The extent to which a formal encumbrance system must be employed is a matter of professional judgment in light of prevailing circumstances. It is critical under any circumstances, however, that appropriate budgetary control be maintained over all government expenditures.

8. Encumbrance accounting is an appropriate and useful financial management tool; however, encumbrances outstanding at year-end may not ne reported as expenditures in GAAP financial statements.

9. At year end, the budgetary accounts ENCUMBRANCES and BUDGETARY FUND BALANCE--RESERVED FOR ENCUMBRANCES should be closed as illustrated above.

a. However, if the government intends to honor the outstanding encumbrances, the amount of these encumbrances should be disclosed in the notes to the financial statements or fund balance should be reserved.

b. If fund balance is reserved, the entry to record the outstanding encumbrances is as follows:

General Fund	DR	CR
Fund Balance--Unreserved, Undesignated	XXX	
Fund Balance--Reserved for Encumbrances		XXX

c. At the beginning of the subsequent year, the preceding entry is reversed, and an entry again is made to record outstanding encumbrances.

K. Comparisons of approved budgeted amounts with actual results of operations (presented on the budgetary basis) are included in governmental GAAP financial reports.

1. Such reports should bc subjected to an independent audit to provide all parties involved in the annual operating budget/legal appropriation process with assurances that monies were spent in accordance with the mutually agreed upon budgetary plan.

2. Aggregated fund-type summary budgetary comparisons are required in the GPFS.

   a. Also,standards provided that aggregation of such account detail by revenue source and expenditure function or program level is appropriate in the GPFS.

   b. This statement must include all governmental fund types with annual appropriated (i.e,, legally adopted) budgets, however, it can be expended to include all funds with appropriated budgets.

3. Detailed budgetary comparisons also are , required by GAAP for the general fund and other individual governmental funds for which appropriated budgets are legally adopted.

   a. These individual fund budgetary comparisons are to be presented at the legal level of budgetary control (e.g., fund, function, department, object) for CAFRs, except in certain extreme cases where preparation of a separate report may be necessary.

   b. When a separate budgetary report is prepared, the notes to the financial statements should make reference to that report, and the CAFR must contain individual fund budgetary comparison statements at a level of aggregation no less than that presented in the GPFS.

4. The SSAP in a government's financial statements should describe clearly the budgetary controls to which the government is legally subject.

   a. It should disclose the basis on which each budget is prepared, which funds have legally adopted annual budgets, the treatment of encumbrances, and state whether appropriations lapse at year end.

   b. When budgets are prepared on a budgetary basis that differs from GAAP, governmental financial reports or the notes to the financial statements should indicate clearly the differences between the budgetary and GAAP bases. Such indications should include explicit dollar amount reconciliations.

   c. The SSAP also should indicate the lever of classification detail at which expenditures may not legally exceed appropriations (i.e., the legal level of budgetary control) for each budget and describe the legally permissible methods for amending the initially approved budget.

   d. The SSAP also should indicate if the presented budgetary information has been amended and whether the amendments were made in a legally permissible manner.

5. The notes or the combined budgetary comparison statement must also include a reconciliation of the basis on which the budget was adopted differs from GAAP. The reconciliation can be based on fund balance or revenues over expenditures/expenses amounts.

CLASSIFICATION AND TERMINOLOGY

A. The use of the governmental model introduces some terms and transaction classifications that are generally not found in the commercial sector.

B. Interfund transactions are one such instance. Transactions between funds should be classified within three broad categories:

1. Quasi-external interfund transactions - these transactions would be treated as revenues, expenditures or expenses if they involved organizations or individuals external to the government. For example, when a fund purchases a good or service from another fund (e.g., the general fund pays the internal service fund for telecommunications service) the transaction would be recorded as follows:

General Fund	DR	CR
Expenditure control	XXX	
Cash		XXX

Internal Service Fund	DR	CR
Cash	XXX	
Revenue control		XXX

2. Reimbursements - these transactions should only be reflected once for the government as a whole. Generally, a reimbursement results from one fund paying for a good or service that is properly chargeable to another fund. For example, if the government pays for a good or service from the general fund that should have been charged to a special revenue fund, the reimbursement would be recorded as follows:

General Fund	DR	CR
Cash	XXX	
Expenditure control		XXX

Special Revenue Fund	DR	CR
Expenditure control	XXX	
Cash		XXX

NOTE: A reimbursement should not be used to disguise an interfund loan or be confused with an interfund transfer.

3. Interfund transfers - these transactions include all the transactions that would not be classified either in the other two categories or as a loan or advance. Transfers are further divided into two separate categories: residual equity transfers and operating transfers.

   a. Residual equity transfers - these transactions constitute nonrecurring or nonroutine transfers between funds. For example, if a government transfers cash from a discontinued special revenue fund to the general fund, the transaction would be recorded as follows:

General Fund	DR	CR
Cash	XXX	
Residual equity transfer in		XXX

Special Revenue Fund	DR	CR
Residual equity transfer out	XXXx	
Cash		XXX

b. Operating transfers - all other transfers should be classified as operating transfers. For example, if the government transfers cash from the general fund to the debt service fund to repay bonds outstanding, the transactions would be recorded as follows:

General Fund	DR	CR
Other financing use control	XXX	
Cash		XXX

Debt Service Fund	DR	CR
Cash	XXX	
other financing source control		XXX

C. Another classification and terminology issue financial statement account presentations. Governmental fund operating statements are generally divided into four classifications: revenues, expenditures, other financing sources/uses and changes in equity.

1. Revenues in the governmental funds should be classified by source (e.g., taxes, intergovernmental, charges for services).

2. Expenditures should be classified into several levels to provide the financial statement users with adequate information. These levels include: character (e.g., current, debt service) and function (e.g., general government, public safety). Additional detail may also be provided by organizational unit (e.g., police department), activity (e.g., violent crime control) and object (e.g., personal services).

3. Other financing sources and uses represent certain transactions that affect the financial resources of a given fund but not the net economic resources of the overall reporting entity. in addition to typical bond issues and operating transfers, several other transactions also should be classified in this category. These transactions include proceeds from the sale of fixed assets and payment to a refunding bond escrow agent.

4. Changes in equity not only encompass the results of operations for the period but also include residual equity transfers and inventory accounted for under the purchases method, and any restatement that results from changes in accounting principles.

D. Government fund equity is presented as "fund balance" in the balance sheet. Fund balance generally is divided into reserved and unreserved amounts.

1. Reserved fund balance denotes amounts that are either (a) legally restricted to a specific use, or (b) not available for appropriation or expenditure. Amounts reserved for encumbrances or debt are common examples of the first category. Examples of the second category include inventory, advances to other funds and noncurrent loans receivable.

2. Unreserved fund balance is further divided into designated and undesignated portions. Unreserved, designated fund balance represents tentative management plans for the use of those resources.

E. Proprietary funds have five primary classification categories within the operating statement: operating revenues, operating expenses, nonoperating revenues/expenses, operating transfers and changes in equity.

1. Operating revenues are generally presented by source (e.g., charges for services).

2. Operating expenses should be classified in a logical manner, consistent with industry practices and standards (e.g., costs of sales, depreciation).

3. Nonoperating revenues and expenses result from activities that do not arise from the primary ongoing operations. Examples of nonoperating transactions include recognition of tax revenues, interest revenue and expense (in most instances) and gains or losses from the sale of fixed assets.

4. Operating transfers are classified in a separate category in the proprietary funds. The term other financing sources/uses should not be used on proprietary fund operating statements.

5. Changes in equity for proprietary funds generally follow the basic guidance set forth in SFAS No. 16 and APB Opinion No. 20. The exceptions relate primarily to restatements resulting from a change in accounting principles which should be reported as an adjustment to beginning equity.

F. Proprietary fund equity accounts are classified as contributed capital and retained earnings.

1. What qualifies as "contributed capital" has not been adequately defined in authoritative literature; however, several specific instances have been identified. These items include capital contributions, system development fees (beyond the cost of connection), developer donations and residual equity transfers in.

2. Retained earnings are further classified between reserved and unreserved amounts. The reserved portion is established primarily in association with bond indenture requirements. These reserves will be discussed in later.

REPORTING ENTITY

A. This guidance is contained in Goverment Standards.

B. The criteria for defining the reporting entity was developed for several reasons.

1. Comparability

a. Users of financial reports may wish to make comparisons between governments or between time periods for a given government.

b. Criteria for the inclusion or exclusion of governments would assist users in making such comparisons.

2. Comprehensiveness. Criteria for defining the reporting entity would help the users of financial reports by reducing the possibility of arbitrary exclusions or inclusions of various organizations.

3. Responsibility and control.

a. Users interested in evaluating the performance of governmental entities need to be able to identify the operations for which their officials are responsible.

b. Specific reporting entity criteria for inclusion or exclusion can help fulfill that need.

C. The definition criteria is broad enough to include all governmental activities, organizations, and functions necessary to achieve the desired objectives of comparability, comprehensiveness and responsibility and control.

D. In developing the reporting entity definition criteria, all functions of government were considered to be responsible to elected officials at the federal, state or local level.

1. Therefore, all functions of government must be part of either the federal, state or local government.

2. They should be reported at the lowest level of legislative authority.

3. However, certain potential component units are intended to be excluded from the reporting entity.

E. There maybe special situations when it may be difficult to determine whether the statements of a specific separate agency should be included in the financial statements of a state or a particular local government of the state.

1. Government officials are encouraged to resolve such problems through formal and informal communication.

2. The application of professional judgment at the level of financial statement preparation is allowed.

F. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in the reporting entity for general purpose financial reports is the exercise of oversight responsibility over such agencies by the government's elected officials.

G. Oversight responsibility is derived from the government's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

1. Oversight responsibility implies that a government is dependent on another and that the dependent unit should be reported as part of the other.

2. The most significant manifestation of oversight–which ordinarily is accompanied by other aspects of oversight–is financial interdependency.

   a. Manifestations of financial interdependency include budgetary authority, levying of taxes, responsibilities for financing deficits, entitlements to surpluses and guarantees of or moral responsibilities for debt.

H. There may be circumstances where factors other than oversight are so significant in the relationship between a particular agency and a reporting entity that exclusion of the agency from the reporting entity's financial statements would be misleading. These other factors include:

1. Scope of public service defined as whether the activity is for the benefit of the reporting entity and/or its residents, and whether the activity is conducted within the geographical boundaries of the reporting entity and generally is available to the citizens of that entity.

2. Special financing relationships where there is no oversight.

I. Positive response(s) to the criteria indicates that the component unit should be included in the reporting entity. However, professional judgment is necessary in individual fact situations to determine whether a particular organization should be included in the reporting entity.

J. The criteria used in determining the scope of the entity for financial reporting purposes should be described in a note to the financial statements.

1. The note should refer to how the specific elements of oversight responsibility and other criteria were considered in deciding whether to include or exclude specific agencies from the entity definition.

2. In instances where there is a positive response to any of the criteria set forth, but the potential component unit was excluded, the specific reasons far excluding such agencies from the reporting entity should be disclosed.

3. Which component units are combined to form the reporting entity also should be designated.

K. There are a number of practical problems existing in the implementation of these atandards.

L. Therefore,a new standard was issued to address many of those issues. This standard provides reporting guidance when incorporating component units into the CAFR of the reporting entity.

M. These are the selected definitions:

1. Component unit--A separate governmental unit, agency or nonprofit corporation which is combined with other component units to constitute the reporting entity.

2. Oversight unit--The component unit that has the ability to exercise the basic criterion of oversight responsibility.

3. Reporting entity--The oversight unit and all related component units, if any constitute the governmental reporting entity.

N. Problems arise when the oversight unit and component units have different fiscal years.

1. The reporting entity, which must use the oversight unit's fiscal year, should incorporate financial statements for the component units fiscal year ending during the reporting entity's fiscal year.

2. For example, if oversight unit A's fiscal year is December 31 and component unit B's fiscal year is September 30, oversight unit A would incorporate in its December 31, 1988, CAFR the financial information from component unit B's September 30, 1988, fiscal year.

3. In addition, component units whose fiscal year ends within the first quarter of the oversight unit's fiscal year are allowed to incorporate that fiscal year's data into the reporting entity's CAFR.

4. In other words, if component unit C's fiscal year ended March 31, 1989, it could be incorporated with the December 31, 1988 financial data of oversight unit A as long as the CAFR is provided on a timely basis.

O. As report preparers begin preparing the GPFS, consideration must be given for grouping the individual funds of the oversight unit and the component unit into the unit into the appropriate generic unity fund types within the GPFS.

1. As previously discussed,the oversight unit's general fund is the only general fund for the reporting entity.

2. Therefore, the general funds of component units B and C must be reported as special revenue funds in the CAFR of the reporting entity.

3. Notwithstanding this exception, the fund types and account groups used by component units should govern the manner in which the component unit is combined with the oversight unit.

4. That is, if component unit B has four special revenue funds and component unit C has three special revenue funds, each of these special revenue funds would be reported as a special revenue fund with oversight unit A's special revenue funds.

P. Another principle that affects the financial presentation in the GPFS is the use of discrete presentations.

1. In those instances where a component unit has adopted accounting principles that are not consistent with GASB pronouncements, but those principles are considered to be generally accepted, and where the inclusion of the component unit would distort a fund type within the reporting entity, the component unit may be presented in a separate column on the financial statements of the reporting entity.

2. This type of presentation should be presented only on rare occasions.

3. For example, a college and university component unit that is part of a reporting entity could be following the accounting principles established by the National Association of College and University Business Officers. The data for this component unit could be included as a separate column on the combined balance sheet. In that case, separate operating statements also would be presented.

Q. If receivables and payables existed between oversight unit A and component unit B, these amounts should be reclassified as accounts "due to" and "due from other funds," because both units are reported in the reporting entity's CAFR. The same principle applies for those governments where a capital lease exists between oversight unit A B.

R. In addition, if any of the component units have fiscal years that differ from the oversight unit, it is possible that the interfund receivables and payables would not agree due to a timing difference. In these instances, the nature and amount of such differences should be disclosed in the notes to the financial statements.

S. Presentation of combining financial statements also is affected by the inclusion of component units in the reporting entity.

1. Obviously, all of the different individual funds for component units B and C would be combined with oversight unit A's funds in the combining statements.

2. However, a deviation from these combining statements is allowed because some reporting entities may be required to include a significant number of component units within the reporting entity.

3. "Functional basis combining" is also allowed:

a. The alternative aggregation of funds and/or component units on a functional basis is appropriate.

b. For example, if oversight unit A and component units B and C all operate a special revenue fund for a similar grant, these three funds may be combined into one column on the combining statements, with no additional combining statement required for the three individual funds.

GENERAL FUND AND SPECIAL REVENUE FUNDS

A. The general fund and special revenue funds are primary operating funds of a government. Both are classified in the Governmental fund type category.

B. As mentioned earlier, both fund types use the flow of current financial resources measurement focus and modified accrual basis of accounting.

C. Several accounting and financial reporting issues generally are associated with general fund and special revenue fund activities. These issues include sales tax revenue recognition, grant and entitlement revenue recognition, service-type special assessment revenue recognition and recognition of certain anticipation notes as fund liabilities.

1. Authoritative guidance for sales tax revenue is provided :

    a. It states that taxes collected by merchants but not required to be remitted to the taxing authority (usually the state) at the end of the year should not be accrued.

    b. Although this guidance appears clear, many governments have chosen to adopt a uniform revenue recognition policy (e.g., 60 days) which does not conform with this guidance.

2. Grant and entitlement revenue recognition guidance is also set :

    a. Grant revenue should be recorded when an eligible (i.e., reimbursable) expenditure is made.

    b. Entitlements should be recognized when received or earlier if susceptible to accrual.

3. Government Standards provide that service type special assessment (i.e., projects for operating activities which do not result in the purchase or construction of fixed assets) may be recorded in the general fund or special revenue fund.

    a. Examples include street lighting, weed cutting, and snow plowing services.

    b. Receivables related to these assessments should be recorded when billed. However, unbilled amounts at the fiscal year-end should be accrued.

    c. Revenue should be recognized to the extent that collections meet the availability criteria.

4. Based on the nature of certain anticipation notes (i"e., funding current operating deficits/deficiencies),standardsprovide that these notes should be reported as fund liabilities in the funds receiving the proceeds.

    a. This guidance applies to tax anticipation notes and revenue anticipation notes and also can be applied to grant anticipation notes.

b. When the proceeds are received from one fund but the note is repaid from another fund this issue is normally resolved through an operating transfer as follows:

	DR	CR
Bond anticipation note payable	XXX	
Operating transfer in control		XXX

DEBT SERVICE FUNDS AND THE GENERAL LONG-TERM DEBT ACCOUNT GROUP

A. Use of debt service funds is:

1. Required by GAAP when:

   a. Legally mandated

   b. Accumulations of resources for future years' payments of principal and interest

      1) Not referring to accumulations for payments due early in the next period

      2) Applies to sinking funds containing a year or more of principal and interest payments.

2. Not considered necessary for:

   a. Lease payments budgeted in the general fund

   b. Serial bonds requiring accumulations of at least one year of principal and interest payments

B. Number of individual debt service funds

1. The number of funds principle would support using the least number of individual debt service funds possible.

2. Bond indenture provisions requiring "debt service funds" may be aimed at separate accounting rather than at separate financial reporting. -

C. Expenditure recognition

1. Normally, under the modified accrual basis of accounting, expenditures are recognized when incurred.

2. The general rule for debt service funds, however, is that principal and interest are only recognized as expenditures when due. This exception to the general rule is designed to avoid creating deficits in debt service funds in situations where the resources will be provided shortly before the actual payment is to be made.

3. When resources are accumulated in a debt service fund for payments due early in the next year, the government has the option of recognizing the related expenditure for principal and interest when the resources are accumulated. This exception to the special "when due" rule is designed to avoid reporting a "surplus" in debt service funds when resources are provided for payments early in the next period.

D. Budgetary considerations

1. Budgetary integration is often not needed in debt service funds because adequate control is maintained through the provisions of bond indentures or through transfers budgeted in other funds.

2. When tax resources are to be reported directly in a debt service fund, however, budgetary integration is recommended.

3. Comparisons of budgeted amounts to actual revenues, expenditures, etc., must be reported in the GPFS if an annual budget is appropriated for a debt service fund.

E. The general long-term debt account group (GLTDAG) reports:

1. General obligation indebtedness that will not be financed by proprietary or trust funds

2. Revenue bonds that will not be financed by proprietary or trust funds.

3. The long-term portion of claims, judgments, and compensated absences applicable to governmental or similar trust fund types.

4. Leases to be financed by governmental funds.

5. Unfunded pension contributions of the general government.

F. Accrued interest is not reported in the GLTDAG

G. The unfunded actuarial accrued liability for pension benefits is not reported in the GLTDAG

H. Except for deep discount debt, debt is reported at its face value with no adjustment being made for premiums or discounts

I. Deep-discount debt

1. Definition - debt with a stated rate of interest less than 75% of its effective yield.

2. Dilemma under current GAAP.

a. If the face value of such debt were to be reported in the GLTDAG, similar to other debt, the rule forbidding the reporting of accrued interest would be violated and the debt would be seriously overstated in its early years.

b. If the debt is reported in the GLTDAG at its net value, it would be seriously understated in its later years,

3. GFOA recommends that deep-discount debt be reported in the GLTDAG at its net value upon issuance, with the face value of the debt being reported in the notes to the financial statements. This net amount should then be accreted (i.e., increased) each year through a balance sheet entry as follows:

	DR	CR
Amount to be provided	XXX	
Bonds payable		XXX

J. Bond anticipation notes (BANS)

1. Tax anticipation notes (TANs), revenue anticipation notes (RANs) and grant anticipation notes (GANs) should always be reported as fund liabilities rather than in the GLTDAG.

2. BANS may be reported in the GLTDAG only if they meet certain GASB criteria:

a. As of balance sheet date, the government plans to replace them by long-term (i.e., more than 12 months later than balance sheet date) debt.

b. The government has the demonstrated ability to refinance (See SFAS No 6)

K. Advance refundings resulting in the defeasance of debt

1. Definitions:

a. Advance refunding - The setting aside of assets in an escrow account to make principal and interest payments until the debt can be redeemed (i.e., call date).

b. Legal defeasance - Advance refundings that result in the bond issuer no longer being considered by the law to be the primary obligor on the indebtedness. In such cases both the debt and the related assets in escrow would be removed from the issuer's balance sheet. Legal defeasances often require the use of full cash refundings (i.e., the total amount of all principal and interest payments would be placed in escrow). Legal defeasances may be necessary to set aside restrictive bond covenants.

c. In-substance defeasance - Advance refundings that do not meet the requirements of a legal defeasance, but where the debt is still considered to be defeased for accounting purposes (i.e., both the debt and the related assets are removed from the balance sheet). Net cash refundings are often used to achieve in-substance defeasances (i.e., the earnings on escrow amounts are taken into account when determining the amount that must be placed in escrow).

d. Cross-over refundings - Advance refundings that do not result in the defeasance of debt because the escrow account acts as security for the refunding debt (vs. the refunded debt) until "crossover" date. At that time an insubstance defeasance may or may not be effected. Until "crossover" date, both the debt and the related assets remain on the balance sheet of the entity.

2. Entries for the advance refunding of GLTDAG debt

Governmental funds -

	DR	CR
Expenditures	XXX	
Other financing use - payment to refunded bond bond escrow agent		XXX
Cash	XXX	
Other financing source - proceeds of refunding bonds		XXX

The "other financing use" category is limited to amounts provided to the escrow agent from the proceeds of refunding bonds. Additional contributions to the escrow agent (e.g., amounts available in a sinking fund) are reported as expenditures.

GLTDAG -

	DR	CR
Bonds payable	XXX	
Amounts to be provided		XXX
(To remove refunded debt)		

Amounts to be provided	XXX	
Bonds payable		XXX
(To add refunding debt)		

CAPITAL PROJECTS FUNDS AND THE GENERAL FIXED ASSETS ACCOUNT GROUP

A. When should capital projects funds be used?

1. Required by GAAP when:

   a. Legally mandated

   b. Capital grants or shared revenues are restricted to capital acquisition where the fixed assets are not reported in a proprietary fund or a trust fund.

2. Recommended

   a. Capital projects are financed by bonds that will be repaid by governmental fund types

   b. Capital projects are financed by intergovernmental revenues

   c. Capital projects are financed by donations

B. How many-individual capital projects funds should be established?

1. The number of funds principle encourages the use of the least number of funds possible

2. In the past, individual funds were often established for each capital project because such funds were needed to ensure the collection of data on individual projects

3. If data on individual projects can be collected by using accounts rather than funds, individual funds may not be needed.

4. Legal requirements for separate "funds" may, in fact, be aimed at separate accounting rather than separate financial reporting..

C. Budgetary considerations

1. Most capital projects funds employ project-length budgets rather than annual appropriated budgets.

2. Sometimes governments will appropriate the annual portion of a longer project-length budget.

3. If an annual appropriated budget is adopted,budgetary comparisons should be presented in the GPFS.

4. There is no GAAP requirement that project-length budgets be presented, although such reporting can be useful in the capital projects subsection of the CAFR.

5. Budgetary integration can be used to maintain control in capital project funds that use project-length budgets.

   a. The initial journal entry used to integrate the budget would be identical to similar entries for annual appropriated budgets.

   b. Unlike an annual appropriated budget, however, the initial journal entry recording the budget would not be "reversed' at year end. Instead, only a portion of each budgetary account equal to actual revenues, expenditures, etc. would be closed at year end.

   c. The result of this partial closing of the budgetary accounts would be that the remaining budgetary authority and unrealized resources would remain on the books (although these accounts would not be reported in the financial statements)

   d. The subsequent year's revenues, expenditures, etc., would then be compared to remaining budgetary authority and resource estimates, thus maintaining control.

   e. Information on project-to-date budgetary comparisons should be maintained separately.

D. The General-fixed assets account group (GFAAG) should not be used to report financial items such as long-term receivables.

E. Fixed assets should be reported at historical or estimated historical cost. Donated fixed assets should be reported at their fair market value on the date of donation.

F. Fixed assets are normally classified into the following categories.

1. Land

2. Buildings

3. Improvements other than buildings

4. Equipment

5. Construction in progress

G. Infrastructure fixed assets (i.e., assets that are immovable and only of value to the government) are not required to be reported in the GFAAG.

H. Accumulated depreciation may be reported in the GFAAG. However, such accumulated depreciation is the result of a balance sheet journal entry only and has no effect on the operating statement.

I. Interest capitalization on GFAAG assets is optional

J. Accounting issues. The proceeds of long-term debt in capital projects funds should be reported net of any discount reflecting an interest rate adjustment. Underwriter fees, should not be deducted from the proceeds reported in the capital projects fund, even if money is never, in fact, received. Instead, underwriters' fees withheld from bond proceeds should be included as an other financing source with the bond proceeds, and then separately reported as an expenditure. This treatment achieves symmetry between such costs paid out of pocket and costs withheld from proceeds.

K. Assets obtained by trade-ins of other fixed assets in the GFAAG should be reported in the following manner:

1. The asset that was traded in should be removed from the GFAAG:

	DR	CR
Investment in fixed assets	XXX	
Equipment		XXX

2. The new asset acquired should be reported at its fair market value:

	DR	CR
Equipment	XXX	
Investment in fixed assets		XXX

3. This transaction would be reflected in the operating statement in one of two ways:

a. Under the gross method the entire fair market value of the new asset would be reported as an expenditure, with the difference between this amount and the cash paid being reported as an other financing source (i.e., as though the asset had been sold):

	DR	CR
Expenditure Control	XXX	
Cash		XXX
Other financing source		XXX

b. Under the net method only the cash paid out would be reported as an expenditure.

	DR	CR
Expenditure Control	XXX	
Cash		XXX

L. Asset "transfers"

1. Contributions of cash from the general government to a proprietary fund for the purpose of capital acquisition should be reported in this way:

Governmental fund -

	DR	CR
Residual equity transfer out	XXX	
Cash		XXX

Proprietary fund -

	DR	CR
Cash	XXX	
Contributed capital		XXX

Note that in such a situation, residual equity transfers in will not equal residual equity transfers out. The difference should be explained in the notes to the financial statements.

2. When assets are constructed in the capital projects fund on behalf of a proprietary fund, the following entries should be made:

Capital projects fund -

	DR	CR
Expenditures	XXX	
Cash/Liability		XXX

Proprietary fund -

	DR	CR
Construction in progress/asset	XXX	
Contributed capital		XXX

3. Assets "transferred" from the GFAAG to a proprietary fund should not be reported in the proprietary fund either at their "fair market value" or at their undepreciated value. Instead,the assets should be reported in the proprietary fund at the same value they would have had if they had been originally acquired by that fund and subsequently depreciated. For example, a piece of equipment was originally purchased for $10,000 and reported at that value in the GFAAG. This piece of equipment has a useful life of ten years and has completed its fifth year of service. The proprietary fund depreciates similar assets on a straight-line basis.

a. One option would be to make the following entry:

	DR	CR
Equipment	$5,000	
Contributed capital		$5,000

b. Another option (preferable) would be to make this entry:

	DR	CR
Equipment	$10,000	
Accumulated depreciation		$5,000
Contributed capital		5,000

4. Assets "transferred" from a proprietary fund to the GFAAG can be reported in one of two ways: Using the assumptions provided in the previous example, for instance:

a. One option would be to make the following entry:

	DR	CR
Equipment	$10,000	
Investment in fixed assets		$10,000

This reports the asset at the same value it would have been reported at had it originally been acquired by a governmental fund and reported in the GFAAG. Such treatment is parallel to that described above for "transfers" to a proprietary fund.

b. Another option (preferable) would be to make the following entry:

	DR	CR
Equipment	$5,000	
Investment in fixed assets		$5,000

This approach has the advantage of not increasing the reported value of an asset based solely on a transaction within the reporting entity.

5. Disclosures on changes by asset class are required by GAAP to be presented in the notes to the financial statements as part of the "liftable" GPFS.

6. The GFOA recommends that information be provided on the source of GFAAG assets, either in the notes or in the CAFR subsection devoted to the GFAAG. The GFOA also recommends that information be provided on fixed assets by function and activity and that changes be reported by function and activity as well.

ENTERPRISE FUNDS

A. As mentioned earlier, enterprise funds are classified in the proprietary fund category. Therefore, this fund type uses the flow of economic resources measurement focus and the accrual basis of accounting.

B. Enterprise funds generally are used when the government operates an activity in a manner similar to private business or management believes that the activity's net income should be reported. The correct definition for enterprise funds allow for an activity to be reported on a consistent basis without relying on a certain percentage of costs (e g., 50 percent) being recovered through user charges.

C. Accounting issues associated with proprietary funds are primarily related to enterprise funds. These issues include: capitalization of interest, restricted accounts, contributed capital, and regulated utilities.

1. Capitalization of interest for constructed fixed assets has raised many questions for state and local governments. These questions include: applicability of the standards, identifying qualifying assets, and construction undertaken outside the proprietary operations

a. At first there was a question of application to governments .but subsequent government standards specified hat they were.

b. Interest costs should clearly be capitalized for "specified qualifying assets." These assets include those that are constructed for the proprietary fund's own use when the proceeds from the related borrowing are externally restricted to finance the acquisition (construction) of a particular asset.

c. For example, if a revenue bond was issued to provide resources to construct a sanitation plant, interest costs incurred by the enterprise fund would be capitalized from the time of the borrowing until completion of construction.

d. When construction of a fixed asset is undertaken outside the proprietary operation (i"e., capital projects fund), it is recommended that the interest should not be capitalized if the proprietary activity is not responsible for the repayment of the debt.

2. Because the subject has not been specifically addressed in authoritative literature, the presentation of revenue bond restricted accounts and related retained earnings reserves also resulted in several practice questions. Generally, there are five restricted accounts associated with revenue bond indentures: revenue bond construction, revenue bond operations and maintenance, revenue bond current debt service, revenue bond future debt service, and revenue bond renewal and replacement. The primary questions relate to the use of these accounts and their impact on reserved retained earnings.

a. The construction account normally reports cash and investments (including interest receivable) segregated by the revenue bond indenture for asset construction.

1) Construction liabilities payable from this account should be reported as "contracts payable–restricted assets."

2) The difference between assets and liabilities restricted for construction is not required to be reported as a reservation of retained earnings because of the short-term nature of the account and the resulting understatement of unreserved retained earnings during the construction period.

b. The operations and maintenance account resources normally are provided through bond proceeds and/or operating income or net income.

1) Assets generally are accumulated to an account equal to one month's operating costs.

2) When additional bonds are issued the amount is raised only to the extent of increased operating costs.

3) Because these assets are generally used only to maintain operations when revenue shortfalls jeopardize the repayment of debt, a reservation of retained earnings should be established.

c. The current debt service account is established to accumulate resources for bond principal and interest payments due in the following year.

1) Bond payments generally are made from this account.

2) The asset account is at least partially associated with the "bonds payable current" and "accrued interest payable" accounts.

3) The difference between these asset and liability accounts should be reported as a reservation of retained earnings.

d. The future debt service account is created when covenants require accumulations beyond the following year's bond principal and interest requirements. Because the account is effectively associated with the bonds payable account, these assets are generally not reserved as part of retained earnings.

e. The renewal and replacement accounts also are established pursuant to bond covenants.

1) These accounts are restricted for payment of unforseen repairs and replacements of assets originally acquired with bond proceeds.

2) A reservation of retained earnings should be recorded for the difference between this account and any related liabilities.

3. Contributed capital is another account that has many issues associated with it. This account is generally associated with "permanent" fund capital, even though it has not been formally defined in authoritative literature.

a. Contributions to the proprietary funds are normally obtained from four broad sources: other funds, developers, customers, and other governments.

1) Contributed capital received from other funds should not be associated with loans tied to repayment schedules. Although a contribution may be returned at some point in time, the repayment should not be a required condition at the time of the contribution.

2) Contributions from developers and customers are generally associated with system-connection related fees (e.g., "impact fees and tap fees). The AICPA state and local government audit guide provides that tap fees collected in excess of actual connection costs should be recorded as contributed capital. The same guidance could be applied to impact fees.

3) Federal and state contributions are generally derived from grants that are restricted to capital acquisitions.

a) Government standards provide that "depreciation on assets acquired with capital grants, entitlements or shared revenues may be closed to contributed capital

b) Although some governments have applied this guidance to all contributions, the language appears relatively restricted.

4. A major issue that faces many government utilities is the application of this standard.

   a. Three criteria must be met before these provisions should be applied. Two important criteria are:

      1) The rates are established or are subject to a approval by an independent. third party regulator or by its own governing board empowered by statute to establish rates that bind customers.

      2) The rates are designed to recover the utility's costs of providing services or products.

   b. Generally, government utilities meet the first criterion, however, those who receive subsidies would not meet the second criterion.

TRUST AND AGENCY FUNDS

A. As discussed earlier, the trust and agency fund type includes four subclassifications, expendable trust, nonexpendable trust, pension trust, and agency funds. Generally, the most significant trust and agency fund is the pension trust, used to report public employees' retirement systems (PERS).

B. Most governments make contributions on behalf of their employees to some type of pension plan.

1. Many governments maintain single-employer PERS that cover certain classes of their employees.

2. Certain classes of employees alternatively may be covered by a statewide PERS.

3. Employees typically are required/permitted to contribute a percentage of their wages to a PERS.

4. Employers also contribute additional amounts to the PERS on behalf of individual employees.

C. Employer contributions are determined in one of two ways.

1. In a defined-contribution PERS, the employer contributes a specified amount (usually a specified percentage of the employee's current salary).

   a. In a defined contribution PERS, an employee is entitled to benefits only to the extent of total accumulated employee and employer contributions and related investment earnings.

   b. Defined contribution PERS do not involve actuarial measurements.

2. In a defined benefit PERS, the employee is promised a specified benefit at retirement (usually an annuity for life at a specified percentage of the employee's salary on the date of retirement).

   a. The employer and/or employee then must contribute an amount large enough to assure that sufficient monies will be on hand to pay the promised benefits upon the employee's retirement

   b. This amount is determined through an actuarial computation that involves a variety of estimates about employees and future rates of inflation.

D. A PERS is considered financially sound if current employer contributions, expressed as a percentage of current employee salary levels, will not have to be increased for future generations of employees (if "level contributions" are made).

1. Under a level funding approach, which is used predominantly in practice, level contributions are made throughout the life of a defined benefit PERS.

2. During the early life of such a PERS, level contributions exceed cash benefits. Resulting "excess" contributions are invested.

3. During the later life of such a PERS, cash benefits exceed level contributions. The difference is made up from investment income.

4. If level contributions are not made early in the life of the PERS, there will not be sufficient investment income in its later life.

E. As previously indicated, in a defined benefit PERS, an actuarial valuation is required.

1. The actuarial valuation is the mathematical process by which the level contribution rate is determined. In other words, "when" and "how much" must be contributed to meet the reporting entity's retirement commitments.

2. In consultation with the actuary, the governing body makes detailed assumptions concerning a variety of experiences.

a. Economic risk areas include:

1) Rates of investment return.

2) Rates of pay increases.

3) Changes in active member group size.

b. Noneconomic risk areas include:

1) Ages at actual retirement.

2) Rates of mortality.

3) Rates of withdrawal of active members (i.e, turnover).

4) Rates of disability.

3. The actuary then takes this data and determines when and how much must be contributed by the reporting entity to meet its future pension obligations.

F. Under current GAAP, an accounting liability exists only when the reporting entity does not contribute to the pension plan the amount required as a result of the actuarial valuation.

1. For example, some reporting entities only contribute the amount of cash needed to meet the current cash benefits. In this instance, the difference between the required level contribution and the actual contribution is an accounting liability.

2. Government standards prescribe the accounting for this liability.

a. In a governmental fund type, the expenditure is the amount developed by an acceptable actuarial cost method, adjusted for the amount of liability that will not be liquidated with expendable available financial resources.

b. The balance is reported in the general long-term debt account group.

G. Many pension plans have actuarial accrued liabilities.

1. Accrued liabilities may be defined as the present value of plan promises to pay benefits in the future based upon service already rendered.

a. For example, if the benefit promise is $15,600 per year at retirement for an estimated ten years, $156,000 will be needed for retirement benefits.

b. The actuary then discounts the $156,000 to its present value (e.g., $30,000). This amount is defined as the actuarial present value of pension benefits. The actual present value of pension benefits then must be attributed to time periods based upon an actuarial cost method.

c. A portion of the $30,000 that normally would be contributed in future years is $20,000. This is referred to as normal cost.

d. The difference between the $30,000 and the $20,000, or $10,000, is the actuarial accrued liability.

e. If actuarial accrued liabilities exceed the plan's assets, the difference is referred to as the unfunded actuarial accrued liability. For example, if plan assets were $6,000, $4,000 (i.e., the difference between $10,000 and $6,000) is the unfunded actuarial accrued liability.

f. The actuarial accrued liability can be presented graphically as follows:

Actuarial present value of pension benefits	$30,000
Normal cost	20,000
Accrued actuarial liability	10,000
Plan assets	6,000
Unfunded accrued actuarial liability	$ 4,000

2. Most pension plans have unfunded actuarial accrued liabilities.

a. These liabilities result from:

1) When most pension plans are instituted, credit usually is given to employees for service rendered before the plan's inception. The costs related to this period are referred to as past service costs.

2) New benefits that apply to service already rendered. These increased benefits are defined prior service costs.

3) Actuarial gains and losses that are the dollar effects of actual events differing from assumptions used by the actuary.

b. Under current GAAP these liabilities are not reported in the financial statements.

c. The unfunded actuarial accrued liability is then allocated over current and future periods.

1) Past and prior service costs usually are amortized over 40 years and actuarial gains and losses over a 10 to 20 year period.

H. Expendable trust funds. As discussed earlier, what distinguishes a non-expendable trust fund from an expendable trust fund are the restrictions that the trust agreement places on the principal portion of the fund. If the agreement allows the expenditure of the principal, the activities should be accounted for in an expendable trust fund.

I. Generally, expendable trust funds are created by administrative action based on donations received by a government. These donations normally are not susceptible to accrual until received in cash. However, as noted earlier, expendable trust funds arc accounted for using the same model as governmental funds (i.e,, flow of current financial resources measurement focus and modified accrual basis of accounting). Therefore, if a pledge is legally enforceable and meets the "availability" criterion for revenue recognition, it would be susceptible to accrual.

J. Nonexpendable trust funds, The nonexpendable trust fund subclassification is similar to expendable trust funds; however, the agreement generally prohibits the liquidation of the trust principal. Common examples include endowments and cemetery perpetual care funds. Unlike expendable trust funds, nonexpendable trust funds use the flow of economic resources measurement focus and the accrual basis accounting.

K. Agency funds are used to account for assets held for other funds, governments, or individuals. These funds are custodial in nature (i.e., assets equal liabilities) and do not involve the measurement of operations. The most common uses of agency funds in practice include: IRC Section 457 deferred compensation plans, taxes billed and collected by one government on behalf of another government; performance deposits and special assessment collections when the government is not "obligated in some manner" for the related special assessment debt.

L. IRC 457 deferred compensation plans reported in an agency fund should generally display investments at market value with a corresponding liability to the employees.

M. Agency fund activities for special assessments should be limited to cash collected from property owners and related interest on investments.

N. The total receivable from the property owners should not be reported, because the corresponding liability to the bond holders would also have to be reported. Reporting this liability would conflict with other the government standard provision that "special assessment debt for which the government is not obligated in some manner should not be displayed in the government's financial statements.

PREPARATION OF A COMPREHENSIVE ANNUAL FINANCIAL REPORT

A. Government standards state that every government should prepare and publish, as a matter of public record, a Comprehensive Anual Financial Report (CAFR) that encompasses all funds and account groups

1. It is comprehensive in the depth and breadth of its reporting detail, providing full disclosure beyond the requirements of GAAP and applicable legal requirements.

2. It is also comprehensive in that it covers specific information on all funds and account groups of the government.

B. The CAFR is a general purpose report in that its contents are intended to meet the needs of a broad range of user groups.

1. The CAFR contains financial statements for each of the government's funds and account groups and five Combined Statements--Overview prepared in conformity with GAAP and organized into a financial reporting pyramid.

2. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, an extensive statistical section, and a letter of transmittal from the chief finance officer.

C. Pursuant to governmen standards use of the term CAFR is limited to financial statement presentations of the reporting entity.

1. The comprehensive report that may be issued for a component unit should be referred to as a component unit financial report (CUFR).

D. The CAFR's/CUFR's three major component sections are the introductory, financial and statistical.

E. The introductory section is intended to familiarize the reader with the organizational structure of the government, the nature and scope of the service it provides and the specifics of its legal operating environment.

1. The recommended contents of the introductory section are:
   a. Title page
   b. Table of Contents
   c. Letter of transmittal.
   d. GFOA Certificate of Achievement for Excellence in Financial Reporting (if current).
   e. Names of principal officials.
   f. Organizational chart.
   g. Other material deemed appropriate by management.

2. The introductory section must include a letter of transmittal from the government's chief finance officer.

a. It also may include letters from the government's chief executive officer or other appropriate officials.

b. In some cases, both the chief finance officer and chief executive sign a single letter of transmittal.

c. The chief finance officer's letter of transmittal generally is addressed to the government's chief executive officer and/or to its governing board.

d. The letter(s) of transmittal should be printed on the government's stationary and dated with the approximate date that the report is made available to the public.

e. To effectively communicate the information contained in the letter of transmittal for all report readers, the following items should be considered during the letter's development stage.

   1) Target a perceived audience and address the letter to that audience.

   2) Consider the reader's attention span.

   3) Avoid long and complex sentences, the use of accounting jargon or the use of unnecessarily formal language.

   4) Incorporate appropriate captions in the text.

   5) Incorporate pictures, graphs and charts.

f. The contents of the letter can be categorized into five subsections: introduction, economic condition and outlook, major initiatives, financial information and other information.

g. If the government was awarded a GFOA Certificate of Achievement for its immediate past year's CAFR\CUFR and has reproduced it in its current report, the letter of transmittal should explain the significance of the certificate. Standardized language is provided by the Certificate of Achievement Program for this purpose.

F. The recommended contents of the financial section are:

1. Independent auditor's opinion.

2. GPFS/CUFS.

3. Combining and individual fund statements.

4. Schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

5. Schedules to present information spread throughout the statements that can be brought together and shown in greater detail (e.g., investments, long-term debt repayment schedules by year and cash receipts and disbursements.

6. Schedules to present greater detail for information reported in the statements (e.g., additional revenue sources detail or object of expenditure data by departments).

G. The financial reporting pyramid is the method endorsed in by government standards as the most efficient means of presenting basic financial statements within the financial section of the CAFR/CUFR.

1. The pyramid owes its name to the pattern of reporting detail that it recommends for the CAFR's financial section.

2. Under the pyramid approach, the front of the financial section (top of the pyramid) contains relatively narrowly focused fund type and account group data, and subsequent portions of the financial section (moving down the reporting pyramid) include increasing levels of reporting detail relating to individual funds.

3. The GPFS do not report information on individual funds (except the general fund and fund types with only one fund), but rather report aggregated fund type data for all funds of each fund type and data for both account groups in separate adjacent columns captioned with fund type and account group titles.

4. The financial reporting pyramid's GPFS/CUFS, also referred to as Combined Statements--Overview, include:

a. Combined Balance Sheet -- All Fund Types and Account Group@.

b. Combined Statement of Revenues, Expenditures and Changes in Fund Balances--All Governmental Fund Types and Expendable Trust Funds.

c. Combined Statement of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual-- General Fund (and other governmental fund types with annual appropriated budgets).

d. Combined Statement of Revenues, Expenses and Changes in Retained Earnings (or Equity)--All Proprietary Fund Types and similar Trust Funds.

e. Combined Statement of Changes in Financial Position--E Proprietary Fund Types and similar Trust Funds.

f. Notes to the financial statements.

H. Independent auditors must express an opinion on the GPFS/CUFS, and they also may express an opinion on financial statements of individual funds.

1. the auditor's opinion may cover the GPFS alone while extending only limited reduced-scope audit coverage to financial statements of individual funds.

a. If all combined, combining and individual fund financial statements have full-scope coverage, the auditor's report should so indicate.

b. If only the combined statements receive full-scope coverage, the auditor's report should so indicate.

2. Although government officials may choose to permit auditors to provide such reduced scope coverage, they should consider carefully the consequences of doing so.

   a. If they accept this type of reduced scope coverage, they nay accept a substantial reduction in the auditor's tests of individual funds.

   b. Many financial reporting problems and many violations of finance-related legal and contractual provisions that must be disclosed under traditional full-scope audits need not be disclosed pursuant to such reduced scope audits.

I. The remainder of the financial-section should be organized into separate subsections for each fund type in use and for both account groups.

1. These subsections should be sequenced in the same order from front to back as the separate fund type columns are sequenced from left to right in the GPFS/CUFS.

2. Divider pages containing descriptions of the various fund types and account groups should be used to segregate the subsections.

3. Within each fund-type subsection all of the Combining Statements--by Fund Type should precede any individual fund statements that may be presented.

J. Combining Statements - By Fund Type are columnar statements that should be presented for each fund type for which the government maintains more than one fund.

1. They include separate columns for each individual fund of that type and total columns.

2. Their total columns contain exactly the same data as the columns presented for that fund type in the GPFS/CUFS.

3. By emphasizing the presentation of columnar combining statements - by fund type and de-emphasizing the presentation of physically separate individual fund statements, the financial reporting pyramid provides a significant potential for streamlining the financial section of the CAFR/CUFR.

4. The presentation of columnar combining statements - by fund type also facilitates tracing,of related amounts from the GPFS/CUFS to the individual fund statements.

K. Physically separate individual fund financial statements should be presented:

1. When more detailed information than is provided in the individual fund columns on the Combining Statements - By Fund Types or in the GPFS/CUFS is needed to meet certain CAFR/CUFR reporting objectives or to demonstrate legal compliance.

2. To present individual fund budgetary comparisons.

3. To present individual fund prior year comparative data.

L. The purpose of the statistical section is to provide CAFR/CUFR users with a broader and more complete understanding of the government and the trends in its financial affairs than is possible from the financial statements and supporting schedules included in the financial section alone,

1. It contains comprehensive financial trend information and nonfinancial data for the government. Such data relate to the physical, economic, social and political characteristics of the government.

2. The recommended components of the statistical section are:

   a. General governmental expenditures by function--last 10 fiscal years.
   b. General governmental revenues by source--last 10 fiscal years.
   c. Property tax levies and collections--last 10 fiscal years.
   d. Assessed and estimated actual value of taxable property--last 10 fiscal years.
   e. Property tax rates--all overlapping governments--last 10 fiscal years.
   f. Principal taxpayers.
   g. Special assessment billings and collections--last 10 fiscal years (if the government is obligated in some manner for related special assessment debt).
   h. Computation of legal debt margin.
   i. Ratio of net general bonded debt to assessed value and net bonded debt per capita--last 10 fiscal years.
   j. Ratio of annual debt service for general bonded debt to total general expenditures--last 10 fiscal years.
   k. Computation of overlapping debt.
   l. Revenue bond coverage--last 10 fiscal years.
   m. Demographic statistics.
   n. Property value, construction and bank deposits--last 10 fiscal years.
   o. Miscellaneous statistics.

3. The list of recommended statistical tables is not intended to be exhaustive. Government officials also should include in their CAFRs/CUFRs such additional statistical data as may be appropriate to meet the informational needs of the various user groups.

4. Some of the information from the recommended statistical tables sometimes may be included as part of the financial statements or supporting schedules within the financial section. When this is done, that information need not be repeated in the statistical section.

5. Statistical tables usually cover more than two and up to ten fiscal years and often present data from outside the accounting system--physical, economic, social, demographic and geographic information intended to provide a more detailed financial picture than that presented in the financial section.

   a. Financial section financial statements and supporting schedules, on the other hand, usually cover no more than two years and present data largely derived from the accounting system.

   b. In contrast to financial section information, statistical section data usually are not susceptible to independent audit.