

Governmental Accounting



Beginning

At the turn of the century governments began to establish separate cash accounts to manage dedicated resources.

These separate cash accounts gradually evolved into the funds that are still used today by governments to ensure and demonstrate legal compliance.

Accountability

- The Government Accounting Standards Board has identified accountability as the paramount objective of financial reporting
- Fiscal Accountability is the responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public moneys in the short term.
- Operational Accountability refers to government's responsibility to report the extent to which they have met their operating objectives efficiently and effectively, using all resources available for that purpose, and whether they can continue to meet their objectives for the foreseeable future.

Funds

- A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Number of Funds

- Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

Fund Types and Classifications

- All funds can be classified into one of 11 different fund types.
- These 11 fund types, in turn, can be classified into three broad categories of funds.
- Governmental Funds – typically are used to account for tax-supported (I.e., governmental) activities.
- Proprietary Funds – are used to account for a government’s business-type activities (I.e., activities supported, at least in part, by fees or charges).
- Fiduciary Funds – are used to account for resources that are held by the government as a trustee or agent for parties outside the government and that cannot be used to support the government’s own programs.

Governmental Funds

- General Fund – chief operating fund of government. Used to account for all of the resources except those required to be accounted for in another fund.
- There are at least three compelling reasons to account for a particular activity in some type of fund other than the general fund.
 1. Requirements of generally accepted accounting principles (GAAP).
 2. Legal Requirements
 3. Demands of sound financial administration

Governmental Funds

- Special Revenue Funds – may be used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.
- This definition is intended to apply to legal restrictions imposed by outside parties, although it is commonly interpreted to apply as well to restrictions imposed by the governing body.
- The use of a special revenue fund is almost always permitted rather than required.

Governmental Funds

- Debt Service Funds – may be used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Governmental Funds

- Capital Projects Funds – may be used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).
- The use of a capital projects fund is especially common for major capital acquisition or construction activities financed through borrowings or contributions.
- The use of the capital projects fund type is permitted rather than being required.

Governmental Funds

- Permanent Funds – should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

Proprietary Funds

- Enterprise Funds – may be used to report any activity for which a fee is charged to external users for goods or services.
- An enterprise fund must be used to report any activity whose principal revenue sources meet any of three criteria.
 1. Association with debt backed solely by fees and charges.
 2. Legal requirement to recover all direct costs (including capital costs such as depreciation or debt service).
 3. Policy decision to recover all direct costs (including capital costs such as depreciation or debt service).

Proprietary Funds

- Internal Service Funds – may be used to report any activity that provides goods or services on a cost-reimbursement basis to other funds, departments, or agencies of the primary government and its component units, or to other governments.
- The use of an internal service fund is never required by GAAP.

Fiduciary Funds

- Should be used to report assets held in a trustee or agency capacity for others and that therefore cannot be used to support the government's own programs.
- The key distinction between trust funds and agency funds is that the former normally are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.