



*Shared Knowledge
for Effective Government*

Government Environment and Reporting Model

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Topics Covered

- Sources of Generally Accepted Accounting Principles
- The Government Environment and Its Impact on Accounting and Financial Reporting
- Financial Reporting
- GASB
- Governmental Environment vs. Business Environment

Financial Reporting

- ▶ What is the goal of financial reporting?
 - ▶ To aggregate and summarize detailed data so that it can be used for practical use (decision making)
- ▶ Who's responsible?
 - ▶ Financial managers are responsible for the accuracy of the financials



Financial Reporting

There are two main reporting styles when it comes to financial reporting:

- Internal Financial reporting – focuses on management's needs and desires.
- External Financial reporting – focuses on the needs of outside parties.

External Financial reporting can be divided into two subcategories, which are:

- Special purpose reporting – offers single specific service
- General purpose reporting – offers a broad range of services



Users of Government Financial Statements

- Citizens and citizen groups
- State, county, and local legislative and oversight officials
- Creditors and investors and municipal bond industry

GAAP through the years

Before the GAAP, accountants would deem a practice to be “fair” by examining custom, usage, and precedent.

The consensus that ultimately developed came to be known as *generally accepted accounting principles*.

Of course, a practice is not limited to custom, usage, and precedent.

Structures have long been in place that permit the development the development and promulgation of entirely new statements as GAAP.


The Nature and Purpose of GAAP

What is GAAP?

- Generally Accepted Accounting Principles (GAAP) refers to a common set of accounting principles, standards, and procedures issued by the Financial Accounting Standards Board (FASB).

Why are they important?

- It ensures that financial reporting is transparent and constant from one entity to another.
- A set of rules for entities to comply to

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- Information needs can vary significantly from one user group to another, as well as among individual users within a group.
 - GAAP aims at defining the minimum financial reporting needed to meet the basic needs of primary users of General Purpose External Financial Reporting (GPEFR).
 - Thus, primary stakeholders will occasionally seek additional information to meet their individual needs

The Role of GAAP

Sources of Governmental GAAP

- The American Institute of Certified Public Accountants (AICPA) have designated three authoritative standard setting bodies to set up GAAP in the United States which are:
 - Private Sector businesses and not-for-profit organizations – Financial Accounting Standards Board (FASB)
 - State and Local Governments – Governmental Accounting Standards Board (GASB)
 - Federal Government – Federal Accounting Standards Advisory Board (FASAB)

Sources of Governmental GAAP

- Theoretically, the standard-setting process for GAAP should ensure that the needs of all three groups are considered.
- The structural framework of GAAP is as follows:
 - FASB – 7 board members, overseen by Financial Accounting Foundation (FAF)
 - GASB – 7 board members, no oversight
 - FASAB – 9 board members, overseen by Treasury OMB GAO
- All board decisions are determined by simple majority vote.

Due Process



To ensure fairness, GASB and FASB follow extensive due process procedures designed to guarantee that all relevant facts are considered and that all interested parties have a chance to fully express their views.



It is important to remember that the GASB's responsibility is to make decisions based on what the board believes best serves the needs of financial statement users.



Due Process

- ▶ GASB due process:
 1. Identification of potential topic
 2. Pre-agenda research
 3. Topic added to technical agenda
 4. Basic research
 5. Invitation to comment/discussion memorandum
 6. Preliminary views
 7. Exposure draft
 8. Final pronouncement

GASB

- ▶ Governmental Accounting Standards Board (GASB)
 - ▶ Established in 1984
 - ▶ Independent private-sector organization
 - ▶ Establishes accounting and financial reporting for U.S. State and Local Governments that follow GAAP
 - ▶ Recognized as authoritative by:
 - ▶ State and Local Governments
 - ▶ State Boards of Accountancy
 - ▶ American Institute of CPAs (AICPA)

GASB Mission



- ▶ GASB Mission
 - ▶ Establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports
 - ▶ Educate stakeholders on how to most effectively understand and implement those standards

About GASB

- ▶ How does GASB carry out its mission?
 - ▶ By issuing standards that:
 - ▶ Improve the decision-usefulness of financial reports
 - ▶ Foster reliable, relevant, and consistent information
 - ▶ Recognize the unique and distinguishing characteristics of the government environment
 - ▶ Are accompanied by helpful and understandable implementation guidance

GASB Independent Standards

- Why is independent standards setting important?
 - Free from inappropriate political pressures or commercial influence
 - GASB brings objectivity and integrity
 - Standards are neutral, unbiased and relevant in the government environment

About GASB

- Why are GASB Standards important?
 - Yield information users need to make decisions about a government
 - Assist users to assess whether a government has been accountable for its resources
 - Sound financial reporting = informed decisions

GAAP Hierarchy

- For state and local governments there are two categories in which GASB information should be categorized:
 - Category A – GASB statements and previous interpretations.
 - Category B – Technical bulletins, implementation guides, and AICPA literature cleared by GASB.
 - If there is no Authoritative (Category A or Category B) guidance that is directly relevant to a given situation, then the government may appeal to nonauthoritative accounting literature.
- Category A information holds a higher status than Category B due to the rigorous due process they undergo.

GASB Standard Setting Process

Identify Topic

Conduct Pre-agenda Research

Make Agenda Decision

Deliberate at Public Meeting

Issue Document for Public Comment

Host Public Hearings

Re-deliberate Based on Comments and Research

Issue Final Standard

Education

Implementation

GASB Standard Setting Process

- Expected Benefits of new information should outweigh the anticipated costs of providing, auditing and using it
- Factors considered include:
 - Usefulness of information
 - Potential benefit that would result from its use
 - Expected costs governments will incur to provide the information
 - Expected costs of not providing the information



GASB Resources for New Standards

- ❖ User Guides
- ❖ Plain language summaries of proposals and new standards
- ❖ Fact sheets on GASB topics
- ❖ Seminars/webinars
- ❖ Quarterly newsletters

Local Government Reporting Structure

- General purpose local governments – Perform a wide range of service (Police, Parks, Roads).
 - Examples include:
 - Cities
 - Counties
 - Townships
 - Villages
- Special purpose local government – Perform a single specific service or a group of related services (education, public transportation, water and sewer).
 - Examples include:
 - Libraries
 - Water districts
 - School districts

Local Government Reporting Structure

- What qualifies as a state or local government?
 - Public corporations
 - Corporate and public bodies
 - Officers are elected people
 - Controlling majority of the governing body is appointed or approved by one or more state or local governments
 - Entity can enact and enforce a tax levy

Differences between Government and For-Profit Business

- Private-sector businesses and state and local governments operate in very different environments, which can cause differences in financial reporting.
- While businesses aim for profit, the governmental sector strives to provide quality services.
- This causes differences in:
 - Motive
 - Budgetary use
 - Investor expectations

Differences between Government and For-Profit Business

- ❖ Profit motive vs. Service motive
 - ❖ There is a distinguishable relationship between what an individual pays and what an individual receives.
 - ❖ Businesses focus on whether revenues earned were sufficient to cover related costs. Governments focus on whether inflows were sufficient to cover outflows (near-term liquidity)
 - ❖ Businesses are operating with a profit motive, while governments exist to provide services to its citizens.

Differences between Government and For-Profit Business

- ❖ Return on investment vs. stewardship
 - ❖ In a business setting stockholders are interested in financial information that allows them to evaluate ability to generate ROI
 - ❖ Citizens tend to prefer financial info that allows them to assess the government's stewardship of financial resources is compliant and entrusted to care
 - ❖ EPS vs. Changes in Net position per taxpayer



Differences between Government and For-Profit Business

- ❖ Appropriated budget vs. Financial plan
 - ❖ The budget is a managerial tool for financial planning and control
 - ❖ A public-sector budget plays a crucial role in the balance of powers b/w the legislative and executive branches
 - ❖ The legislative power of the purse serves as a counterbalance to the potential arbitrary exercise of executive power.
 - ❖ The constraints imposed on management by the government's appropriated budget are as effective as those imposed by creditors and other levels of government.

Differences between Government and For-Profit Business

❖ Difference financial reporting models

- ❖ More than one measurement focus
- ❖ Fund Accounting
- ❖ Budgetary Reporting



Financial Reporting

- 3 methods of communicating financial information include:
 - Display
 - Disclosure
 - Support



Financial Reporting

- Display – items are reported on the face of the BFS if they BOTH meet the definition of one of the FS elements AND can be adequately measured
 - Assets
 - Liabilities
 - Inflows/Outflows of resources
 - Deferred inflows/outflows of resources
 - Net position

Financial Reporting

- Display
 - Characteristics of Accounting Data
 - Understandability
 - Reliability
 - Relevance
 - Timeliness
 - Consistency
 - Comparability

Financial Reporting

- Disclosure – Notes to the Financials
 - Descriptions of policy underlying amounts presented in the BFS
 - Detail or Explanations concerning amounts presented in the BFS
 - Information about potential FS elements that didn't qualify for recognition
 - Disclosed items should be BFS related
 - No predictions or subjective estimates

Financial Reporting

- Support – Required Supplementary Information (RSI) & Supplementary Information (SI)
 - Can be required by GASB (ex. GASB 68/75 Schedules)
 - Related to Basic Financial Statements or Notes
 - RSI – required by GASB
 - SI – Not required but helps with understanding BFS or Notes
 - Includes more detailed presentation of info included in the financial statements

Financial Reporting

- The financial statement audit
 - Auditor's goal is to provide reasonable assurance that the BFS are fairly presented
 - Unmodified audit opinions are rendered as long as BFS are in accordance with GAAP and the standards set by governing body (AOS)
 - The responsibility to offer an opinion on fair presentation of the FS in no way diminishes the responsibility of management and the government body



Questions?

- ▶ Thank you for listening!
- ▶ Email: wsengos@jginc.biz