

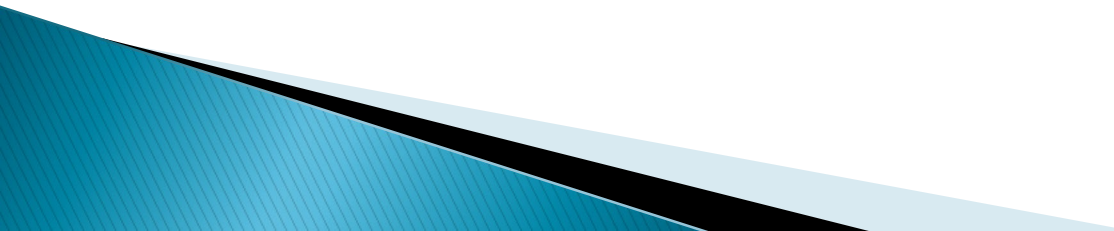


*Shared Knowledge
for Effective Government*

GAAP and the Government Environment

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Topics Covered

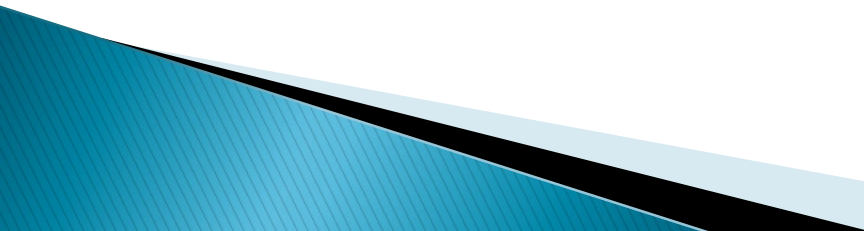
- ▶ Financial Reporting
 - ▶ Sources of Governmental Generally Accepted Accounting Principles (GAAP)
 - ▶ GASB
 - ▶ Local Government Reporting Structure
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Financial Reporting

- ▶ 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 (even if the work is contracted to a third party)

Users of Government Financial Statements

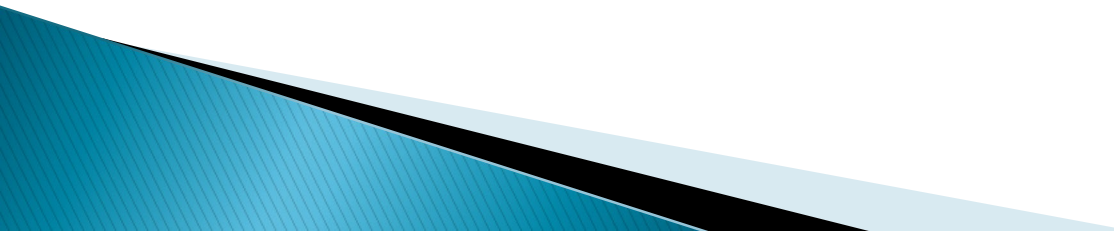
▶ Stakeholders

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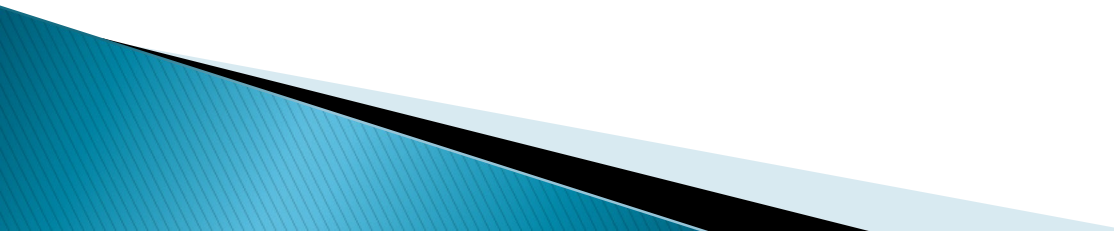
Financial Reporting

- ▶ 3 types – Internal reports, special purpose reports, and general purpose reports
 - Internal financial reporting
 - Prepared for internal use only
 - May have any form or content
 - Used to monitor budgetary compliance
 - Not subject to external review or audit
 - Special purpose reports
 - Financial reports required by external parties to be prepared according to their form and content

Financial Reporting

- ▶ General purpose external financial reporting
 - Other Comprehensive Basis of Accounting (OCBOA) and GAAP reports
 - Form and content is governed by GAAP
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Sources of Governmental GAAP

- General purpose financial reports are governed by GAAP and GASB
 - Sources of GAAP
 - Private Sector – Financial Accounting Standards Board (FASB)
 - State and local governments – Governmental Accounting Standards Board (GASB)
 - Federal government – Federal Accounting Standards Advisory Board (FASAB)
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About the GASB

- ▶ **Governmental Accounting Standards Board**
 - 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)

About the GASB



▶ **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 the 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
 - Improve constituent understanding of the information contained in financial reports
 - Are accompanied by helpful and understandable implementation guidance

About the GASB



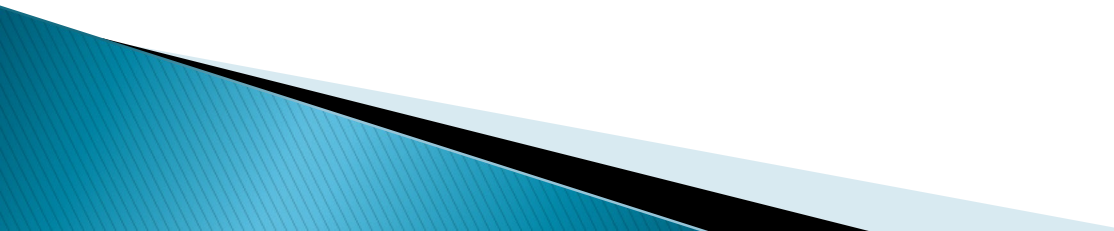
- ▶ Why is independent standards setting important?
 - Free from inappropriate political pressures or commercial influence
 - GASB brings objectivity and integrity
 - Standards are neutral, unbiased and relevant in the government environment

About the 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
 - Sounds financial reporting = informed decisions



GASB is NOT

- A Federal Agency
 - Funded by the Federal Government
 - GASB does not have enforcement authority to require governments to comply with its standards
 - GASB standards are NOT federal laws
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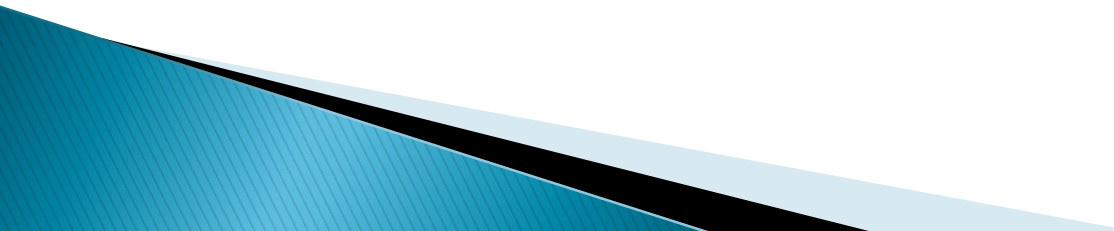
Sources of Governmental GAAP

- ▶ Governmental GAAP Hierarchy
 - Level One
 - GASB Statement and interpretations
 - Level Two
 - GASB Technical bulletins
 - Level Three
 - To date: no level three guidance for local governments
 - Level Four
 - Comprehensive Implementation Guides
 - Widely recognized and accepted practices
 - Other accounting literature

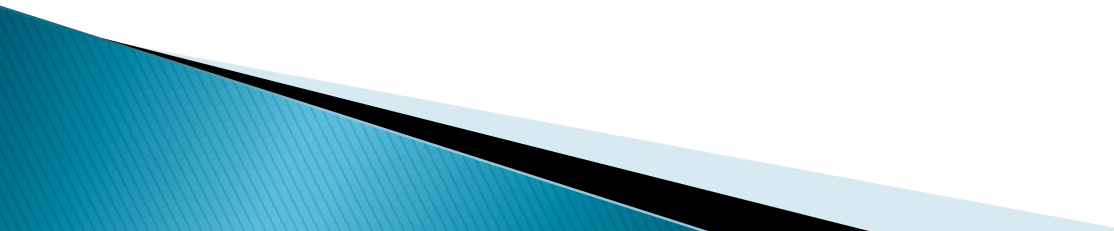
GASB Standard Setting Process



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

- **EXAMPLES INCLUDE:**

- Cities
- Counties
- Townships
- Villages

▶ Special purpose local governments

- **EXAMPLES INCLUDE:**

- School Districts
- Libraries
- Water Districts



Local Government Reporting Structure

- ▶ What qualifies as a state or local government?
 - Public corporations
 - Bodies corporate and public
 - 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

- Profit vs. Service
 - Little relationship between taxes paid and the services provided (Citizens with no kids still pay School Income Tax)
 - Focus by citizens on whether entity's inflows cover outflows
- Return on investment vs. Stewardship
 - Citizens look to see if the government is a good steward of the resources it receives

Differences between Government and For Profit Business

- Appropriated budget vs. Financial Plan
- Budgets in government help balance the power between the legislative and executive branches 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
 - Display
 - Disclosure
 - Support



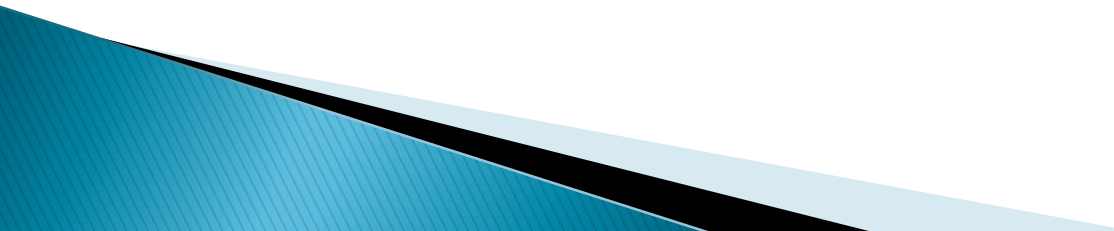
Financial Reporting

- Display – using the financial statements, items are only reported if they can be classified and measured
 - Assets
 - Liabilities
 - Deferred inflows of resources
 - Deferred outflow of resources
 - Net position

Financial Reporting

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

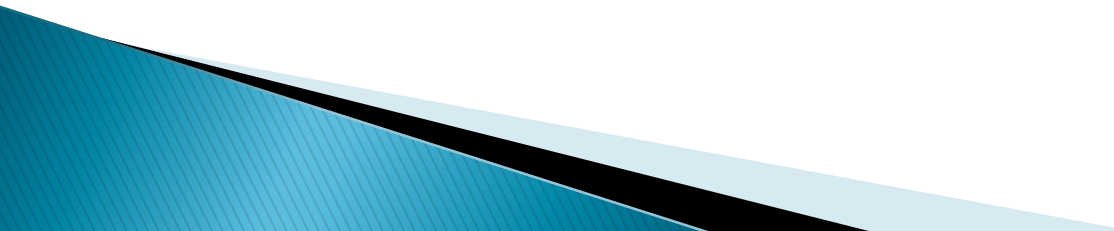
Financial Reporting

- Disclosure – Notes to the Financials
 - Descriptions of accounting policy
 - Explanation of amounts in the BFS
 - Information of elements that did not 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 Schedules)
 - Related to Basic Financial Statements or Notes
 - RSI – required by GASB
 - SI – Not required but helps with understanding BFS or Notes

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)
 - BFS should be well supported with underlying documentation
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Ohio Local Governments

▶ The Ohio Auditor of State

- Responsible for auditing all public offices in Ohio
- Independently elected statewide office established under Ohio's Constitution
- Other duties include:
 - Performance auditing
 - Fraud investigation in public agencies
 - Financial services to local governments
 - Promotes transparency in government

Ohio Local Governments

▶ The Ohio Auditor of State

- Provides Technical Bulletins which can assist in the implementation of GASB Standards
- Releases the financial audit of public entities on the website www.ohioauditor.gov
- Local governments must now file unaudited financial statements on the Ohio Auditor of State's Hinkle System
- Audited financial information is used online for the new Financial Health Indicators (cities and counties)

Ohio Local Governments

▶ GFOA and Ohio GFOA

- Government Finance Officers Association
- Promotes excellence in state and local government financial management
- Provides:
 - Best Practice Guidance
 - Consulting
 - Networking Opportunities
 - Publications
 - Recognition programs
 - Research
 - Training

Questions?

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