



# The Governmental GAAP Environment

## *Public Enterprise Study Committee*

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May 5, 2014



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# A Quick Overview of GAAP

- Definition of GAAP
- Theory of fund accounting
- National structure of external financial reporting
- Unique characteristics of the fund accounting structure
- Types of interfund transactions

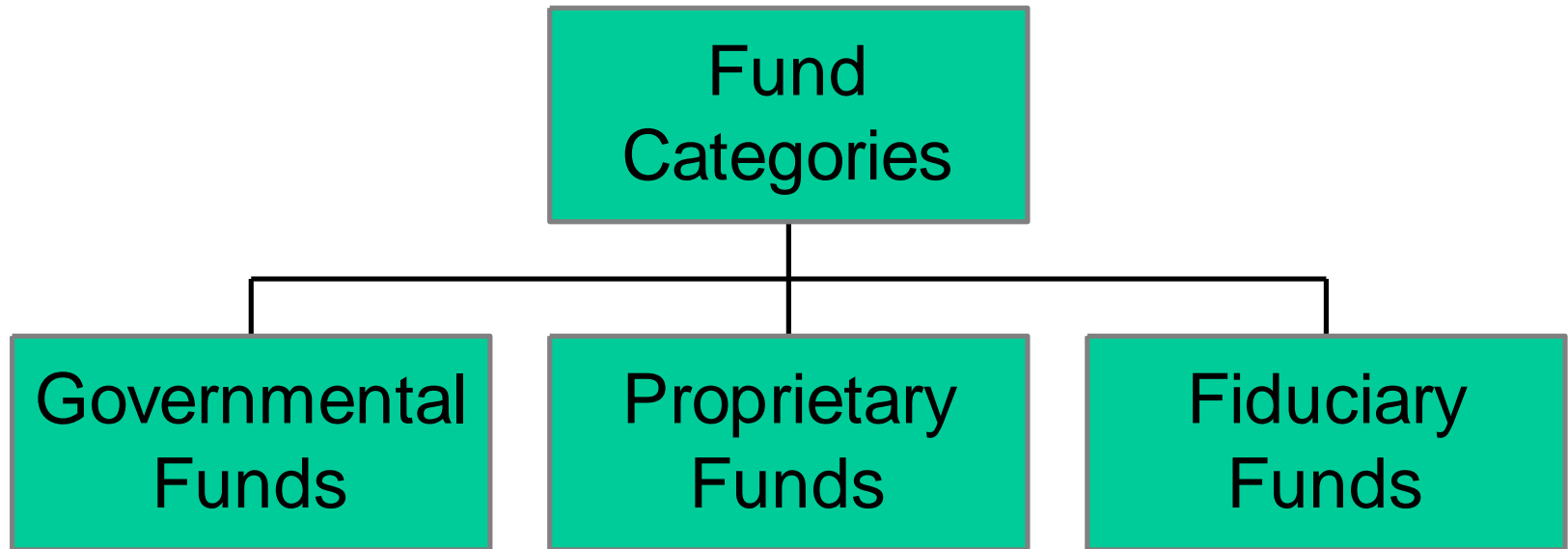
# Definition of GAAP

- Generally accepted accounting principles
  - Adherence required by G.S. 159
  - Established at the national level by the Governmental Accounting Standards Board
- Governmental GAAP vs. “private-sector” GAAP
- GAAP requires the use of a fund accounting structure

# Theory of Fund Accounting

- Accounting and reporting tool used to “segregate” unrelated functions and services
- Historically based on the century-old practice of using the banking system to segregate unrelated funds
- Required by governmental GAAP for state and local governmental entities nationwide

# Fund Accounting Structure



# National Structure of External Financial Reporting

- Standardized external financial statements produced once a year and subjected to an independent audit
  - G.S. 159 requires an audit for all local entities
  - All financial statements reviewed by the Local Government Commission
- Independent auditors render an opinion as to whether or not financial statements follow relevant GAAP

# Unique Characteristics of the Fund Accounting Structure

- Budgetary practices vs. accounting practices
  - Budgets ultimately have to reconcile with GAAP, but methods of internal accounting may differ (e.g., personal record keeping vs. Form 1040)
- Interfund transactions are common and often necessary

# Types of Interfund Transactions

- Exchange transactions
  - One fund provides a service to another fund
    - City Hall pays for water/wastewater services provided by the entity's enterprise fund
    - Police department pays to have its vehicles maintained by the entity's internal central garage (that operates on a break-even basis, as it is required to do so by GAAP)
- Common terminology
  - Evidenced by a revenue (provider fund) and expense (recipient fund)
  - “Due to's” and “Due from's”



# Types of Interfund Transactions (cont.)

- Reimbursements
  - Often necessary for proper recognition of function or activity expenditures
  - Critical for proper cost allocation for rate setting purposes
  - Budget practices typically drive the need for reimbursements and reallocations
  - *Reimbursements are NOT transfers and should not be reported as such*

# Types of Interfund Transactions (cont.)

- Transfers
  - Transfers represent the movement of resources between funds that is *not* based on a reimbursement or reallocation
  - Limited legal or GAAP limitations/restrictions on transfers
  - Policy issues/questions *do* limit transfers
    - In NC, the LGC financial statement review raises flags
    - Bond ratings analysts often question transfers that are excessive or ongoing

# Types of Interfund Transactions (cont.)

- Interfund loans
  - Occasionally used in lieu of procuring external loans or financing arrangements
  - May be “formal” or “informal” in nature
  - Not restricted by GAAP
  - Common terminology
    - Interfund receivable/payable
    - Advances to/from funds

# Thank You!



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