



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Introduction
Sub-section: Fiscal Management Objectives

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The objectives of general purpose external financial reporting by state and local governmental entities are described in Governmental Accounting Standards Board (GASB) Concepts Statement No. 1, *Objectives of Financial Reporting*. These objectives apply to both governmental and business-type activities. The reporting objectives are influenced by the characteristics of the governmental operating environment and by the needs of those who use the financial reports. The significant characteristics of a governmental environment that need to be addressed by its reporting objectives are:

- The government's structure and the service it provides:
 - The representative form of government and the separation of powers,
 - The federal system of government and the prevalence of intergovernmental revenues, and
 - The relationship of taxpayers to services received.
- The control features that arise from the structure:
 - The budget as an expression of public policy and financial intent and as a method of providing control, and
 - The use of fund accounting for control purposes.
- Other characteristics:
 - The dissimilarities between similarly designated governments,
 - The significant investment in non-revenue-producing capital assets, and
 - The nature of the political process.

These characteristics are described in detail in Concepts Statement No. 1 and provide a framework for the Board's definition of the reporting objectives that are designed to fulfill the requirements of the three primary user groups:

- Citizens,
- Legislative and oversight bodies, and
- Investors and creditors.

Concepts Statement No. 1 also notes that financial reports are used primarily to:

- Compare actual financial results with the legally adopted budget.
- Assess financial condition and results of operations.
- Assist in determining compliance with finance-related laws, rules, and regulations.
- Assist in evaluating efficiency and effectiveness.

Citizens and legislative and oversight officials use financial reports to measure a government's accountability for its actions and decisions. In particular, information in financial reports should enable users to determine whether current-year revenues are sufficient to pay for current-year services or whether

future taxpayers will be required to assume burdens for services previously provided. To ensure accountability, state and local governmental financial reports should exhibit these basic characteristics:

- Understandability – Information is expressed as simply as possible.
- Reliability – Information is verifiable, free from bias, faithfully represented, and comprehensive.
- Relevance – Information can make a difference in a user's assessment of a problem, condition, or event.
- Timeliness – Information is issued soon enough after the reported events to affect decisions.
- Consistency – Once adopted, an accounting principle or reporting method is used for all similar transactions and events. If a change is required, then full disclosure of the nature, reason, and effect of the change is made.
- Comparability – Information allows users to make comparisons among governments (e.g., of the costs of specific functions or components of revenue).

Given the above characteristics of the environment, the users, and reporting basics, the financial reporting objectives established by Concepts Statement No. 1 are:

- Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability by:
 - Providing information to determine whether current-year revenues were sufficient to pay for current-year services.
 - Demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements.
 - Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.
- Financial reporting should assist users in evaluating the operating results of the governmental entity for the year by:
 - Providing information about sources and uses of financial resources.
 - Providing information about how it financed its activities and met its cash requirements.
 - Providing information necessary to determine whether its financial position improved or deteriorated as a result of the year's operations.
- 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 by:
 - Providing information about its financial position and condition.
 - Providing information about its physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources.
 - Disclosing legal or contractual restrictions on resources and the risk of potential loss of resources.