



State of North Carolina

Department of State Treasurer

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Memorandum #964

May 15, 2002

To: Officials of Local Governments and Certified Public Accountants

From: T. Vance Holloman, Director
Fiscal Management Section

Subject: GASB Statement 34 – Chart of Accounts Changes and Difference Between Modified and Full Accrual

The Governmental Accounting Standards Board (*GASB*) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to establish a new model for external financial reporting. Statement No. 34 should minimally affect the daily accounting for a unit of government's operations. To fulfill the government-wide reporting requirements of Statement No. 34, there will be some changes to the current chart of accounts that will enable the unit to track certain transactions.

Governmental fund financial statements will be prepared on the modified accrual basis of accounting, but governmental activities must be reported on the full accrual basis of accounting on the government-wide financial statements. Therefore, a number of transactions will be reported differently between the two financial statements. The differences will not be recorded within the governmental funds but will be recorded on a conversion worksheet.

The material in this memorandum was developed with the assistance of the North Carolina Association of Certified Public Accountants and the North Carolina Government Finance Officers Association. We greatly appreciate their valuable assistance.

Chart of Accounts

In order to prepare the government-wide financial statements, it will be necessary to match program revenues with expenses. This will not be difficult for business-type activities because identifiable activities (segments) will closely correlate to enterprise funds. However, this will be more difficult in governmental funds, especially for the General Fund. Due to the need to track revenues by function (program), the chart of accounts illustrated in the Department's Policies Manual will be expanded to eleven digits. The two-digit function or identifiable activity code will be used to track revenues by program. Following is a proposed structure for a chart of accounts under the new reporting model:

XX	XX	XXXX	XXX
Fund	Function or Identifiable Activity	Basic Account	Object or Source Code

Fund

The governmental fund type still exists and consists of the following funds:

- General,
- Special revenue,
- Capital projects,
- Debt service, and
- Permanent.

All of these funds with the exception of the permanent fund were defined in NCGA Statement 1, as amended. The permanent fund is a new fund and is defined under Statement 34 as *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*. Nonexpendable trust funds under the previous reporting model will no longer exist. If the funds were intended to benefit the reporting government, they will now be reported as a permanent fund. An example would be a cemetery fund where only the earnings can be used for maintenance of the cemetery. Expendable trust funds will also disappear. If those funds were intended to benefit the government, they will now be reported as special revenue funds.

Proprietary funds will continue to consist of enterprise and internal service funds. According to Statement 34, state unemployment compensation funds and public entity risk pools are the only funds that are specifically required to be accounted for in enterprise funds. Units may elect to report any activity as an enterprise fund if a fee is charged to an external user of goods and services. Funds that meet *any one* of the following criteria will be required to be reported as enterprise funds:

- The fund holds debt that is secured only by the revenues of its own activities.
- The fund is required to recover the costs of providing its activity through user charges and fees.
- The pricing policy is designed to recover the costs of providing its activity through user charges and fees.

North Carolina local governments and public authorities should continue to report water and sewer funds, electric funds, natural gas funds, and mass transit funds as enterprise funds. Activities such as solid waste, landfill, recreation and entertainment facilities, and parking garages may be reported in an enterprise fund or within the General Fund based upon the criteria stated above.

Funds that predominantly provide services to the government should be reported as internal service funds. If they primarily serve entities outside of the government, they should be reported as enterprise funds. The intragovernmental activity will be eliminated on the government-wide statements. This elimination will not result in an entry to the unit's general ledger. The allocation will be recorded on a conversion worksheet. We are aware that some governments have elected to reclassify their internal service funds as departments of the General Fund to simplify financial reporting. The general rule is that the government should establish the minimum number of funds to comply with legal and operational requirements as stated in *Codification of Governmental Accounting and Financial Reporting Standards Section 1300.108*. If the internal service fund serves as a legitimate management tool, the government should continue to use it.

Fiduciary funds consist of pension trust, investment trust, private-purpose trust, and agency funds. These funds are not used to support the government's operations. IRC Section 457 plans are considered pension trust funds. Investment trust funds are not applicable to North Carolina governments. Private purpose trust funds are new; and according to Statement 34, they are used to account for funds *that benefit individuals, private organizations, or other governments*. Private purpose trust funds would be former expendable and nonexpendable trust funds that benefit individuals, private organizations, or other governments rather than the reporting government and its citizens.

Finally, Statement 34 no longer utilizes account groups to account for fixed assets or long-term debt. However, governmental funds must continue to record transactions and report on the modified accrual basis of accounting. The two former account groups have been retitled, but cannot be eliminated.

Following are the recommended fund codes:

01 - 09	Central depository/ cash concentration account
10 - 19	General fund
20 - 29	Special revenue funds
30 - 39	Debt service funds
40 - 49	Capital project funds
50 - 59	Permanent funds
60 - 69	51 Cemetery fund
	Enterprise funds
	61 Water and sewer fund
	63 Electric fund
	64 Natural gas fund
	65 Mass transit fund
	66 Landfill fund
70 - 75	Agency funds
76 - 77	Private purpose trust funds
78 - 79	Pension trust funds and other employee benefits
80 - 89	Internal service funds
91	Governmental activities/ capital assets
92	Governmental activities/ long-term debt

Function and Identifiable Activity

The government-wide statements will match revenues and expenses according to functional categories for governmental activities. The function codes will allow the user to determine whether the source of funding for a functional category was sufficient to cover the costs. For business-type activities, the minimum level of reporting will be identifiable activities. The following categories could be assigned:

Functions

00	General government
10	Public safety
20	Transportation
30	Environmental protection
40	Economic and physical development
50	Human services
60	Debt service
70	Education
80	Cultural and recreation

Identifiable Activities

90	Enterprise
91	Water and sewer
93	Electric
94	Natural gas
95	Mass transit
96	Landfill

Basic Account

The basic accounts for assets, liabilities and equity, revenues, and expenditures remain as follows:

1000 - 1999	Assets
2000 - 2999	Liabilities and equity
3000 - 3999	Revenues
4000 - 9999	Expenditures

The basic account codes are displayed in further detail in the *North Carolina Department of State Treasurer Policies Manual*. In addition to those codes, 1770 - Roads and 1780 - Street lighting systems should be added.

Source or Object Code

Revenues

For the government-wide statements, revenues must be divided into the following four categories:

- General
- Charges for services
- Program specific - operating grants
- Program specific - capital grants and contributions

General revenues include all tax revenues and any other revenues that do not meet the criteria for program revenues. Charges for services represent revenues generated from exchange or exchange-like transactions of a function (program) or identifiable activity (segment). Program specific revenues can originate from operating grants or capital grants and contributions. If a grant can be used for either purpose, it should be classified as an operating grant.

The following revenue source codes will be used to distinguish among the four types:

General

100	Taxes and licenses
200	Intergovernmental revenues - unrestricted
800	Miscellaneous general revenues

Charges for services

400	Service charges
500	Enterprise charges

Program Specific - operating grants

300	Intergovernmental revenues - restricted
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Program Specific - capital grants and contributions

600	Special assessments
700	Capital contributions and grants

Category 900 will be used for revenues or other financing sources not classified elsewhere. Examples are special items, extraordinary items, transfers, and additions to endowments. Note that special items are within the control of management and are *either* unusual or infrequent. See *Exhibit A* for a proposed classification of revenues among the four categories. Units should assign unique source codes to significant revenue sources.

Internal Service Funds

When preparing the government-wide statements, the effect of internal service fund activity will need to be eliminated. Internal service funds should operate on a breakeven basis. Therefore when the activity results in a profit or loss, it should be allocated back to the fund's functional categories or identifiable activities based on its proportionate participation percentage. Again, this will be for reporting on the government-wide financial statements only. This elimination will not be posted to the general ledger of the unit, but will be posted to a conversion worksheet. The following three digit revenue source codes will be used to trace these charges:

441	General government
442	Public safety
443	Transportation
444	Environmental protection
445	Economic and physical development
446	Human services
447	Education
448	Cultural and recreation
461	Water and sewer
463	Electric
464	Natural gas
465	Mass transit
466	Landfill

Since the effect of internal service fund activity will only be presented on the government-wide statements, there will be no need to assign account numbers to lower levels, such as departments, that will not be presented on those statements. If units are presenting government-wide statements at a level lower than the functional level, an additional digit may need to be added to the chart of accounts so account codes may be assigned.

Capital Assets

In order to allocate depreciation to functions within governmental activities and to identifiable activities within business-type activities, three digit asset codes will be used to identify the capital assets by function. They are as follows:

410	General government
430	Public safety
450	Transportation
470	Environmental protection
490	Economic and physical development
500	Human services
590	Education
600	Cultural and recreation
900	Unassigned

Since depreciation for these assets will only be presented on the government-wide statements, there will be no need to assign account numbers to lower levels, such as departments, that will not be presented on those statements. If units are presenting government-wide statements at a level lower than the function level, additional account codes may be assigned.

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This memo is offered as an example of an account structure that would facilitate financial reporting under the requirements of the new model. The objective of the chart of accounts presented in the Policies Manual is to provide a model chart of accounts that will result in financial reporting in accordance with generally accepted accounting principles and result in financial statements that are comparable between units of government in our state and between years for the same unit of government. Each unit should evaluate the capabilities of their accounting software and their individual financial reporting needs in order to arrive at a chart of accounts that will be useful to management, the governing board, and other users. Units do not have to assign the same account numbers used in this model in their own chart of accounts or use the same number of digits. However, units should group their accounts for financial reporting purposes in the manner they are grouped in the model chart of accounts.

The Policies Manual will be updated for these changes in the chart of accounts this summer.

Modified vs. Full Accrual

Paragraph 77 of GASBS No. 34 requires the basic financial statements to include a reconciliation between the fund financial statements and the government-wide statements. The two choices for presentation are to include either a separate schedule or a summary at the bottom of the fund financial statements. The unit of government may also choose to provide additional information in the notes. A list of the differences between the modified and full accrual statements is included at *Exhibit B*. The list explains the accounting treatment for each item on both bases. The reconciling items between the government-wide and fund financial statements are not limited to the items listed on Exhibit B.

Conclusion

If you have any questions concerning this memorandum, please call Samantha Cox at (919) 807-2394 or Sara Shippee at (919) 807-2386.

Exhibit A

Description	Category	Source Code
911 charges (local)	General	100
Auto licenses	General	100
Cable television franchise tax	General	100
Excise stamp tax	General	100
Gross tax receipts rental property	General	100
Local occupancy tax	General	100
Prepared foods tax	General	100
Privilege license tax	General	100
Special district taxes	General	100
Taxes-ad valorem	General	100
Taxes-animal	General	100
Taxes-local option sales and use	General	100
Taxes-real property transfer tax	General	100
Beer and wine tax	General	200
Entitlement land revenues	General	200
Food stamp purchase tax reimbursement	General	200
Intangibles tax reimbursement	General	200
Inventories tax exclusion reimbursement	General	200
Local shared revenue	General	200
Piped natural gas tax	General	200
Senior citizens tax exemption refund	General	200
TVA revenues	General	200
ABC distribution	General	200
Contributions and donations	Determined Individually, Usually Program Specific Based on Donor Restrictions	300
Controlled substance tax	Program Specific-Operating	300
Hazard mitigation grant program	Program Specific-Operating	300
Health state and federal grants	Program Specific-Operating	300
Mental health state and federal grants	Program Specific-Operating	300
Powell Bill funds	Program Specific-Operating	300
Public assistance grants (FEMA)	Program Specific-Operating	300
Scrap tire disposal tax	Program Specific-Operating	300
Sharing of federally forfeited property	Program Specific-Operating	300
Social service state and federal grants	Program Specific-Operating	300
State fire protection grants	Program Specific-Operating	300
U.S.forest service	Program Specific-Operating	300
White goods disposal tax	Program Specific-Operating	300
Wireless enhanced 911 service charge	Program Specific-Operating	300
ABC 5 cent bottle tax	Program Specific-Operating	300

Exhibit A

Description	Category	Source Code
Building permits fees	Charge for Service	400
Concealed handgun permits	Charge for Service	400
Court facilities fees	Charge for Service	400
Fines and forfeitures	Charge for Service	400
Inspection fees	Charge for Service	400
Recreation fees	Charge for Service	400
Register of deeds-exclude excise stamp	Charge for Service	400
Regulatory fees	Charge for Service	400
Rents	Charge for Service	400
Enterprise fund charges	Charge for Service	500
Clean Water Bond Act	Program Specific-Capital	700
Critical Schools Facility Needs Fund	Program Specific-Capital	700
Grants for water and sewer systems	Program Specific-Capital	700
Utility franchise tax	General	800
Sales real property	General	800
Sales-materials and fixed assets	General	800
Payments in lieu of taxes	▲	200/400
Public School Building Capital Fund	●	300/700
State Public School Building Bond Fund	●	300/700
Tap fees	Charges for Services/Program Specific Operating	500/300
Special assessments	◆	600/400
CDBG program	⊛	700/300
Investment earnings	General, Could be Program Specific Based on Restrictions of Grant Proceeds or Debt Service	800/300

▲ This revenue will normally be classified as general; however if the underlying source is based on the value of the services that you get, it will be a charge for service.

● Counties will account for this revenue as Program Specific-Operating while Boards of Education will account for it as Program Specific-Capital.

◆ If this revenue results in an asset being recorded on the unit's books, it is Program Specific-Capital; if not, it is a Charge for Service.

⊛ If this revenue results in an asset being recorded on the unit's books, it is Program Specific-Capital;

Exhibit B

**GASB 34
Differences Between Modified and Full Accrual Accounting**

	Accounting Treatment	
	Modified Accrual	Full Accrual
Accrued interest and penalties on property taxes	Recognized when available.	Accrued when earned, adjusting for uncollectible accounts.
Beer and Wine Excise Tax	Recognize a revenue when the May payment is received; at June 30, recognize a receivable and deferred revenue for the last 3 months of the fiscal year	Recognize revenue when the underlying transaction occurs. Receivable and revenue at June 30 for last 3 months of the fiscal year.
Bond issuance costs	Expenditure when incurred.	Asset amortized over the life of the debt.
Capital leases	Recognize other financing source for proceeds from capital lease and an expenditure equal to present value of minimum lease payments.	Recognize a capital asset and a liability.
Capital Outlay	Expenditure for acquisition or construction of capital asset.	Addition to capital assets.
Claims and judgments	Expenditures recognized to the extent they are normally expected to be liquidated with expendable, available, financial resources.	Expense recognized in period in which it is probable and the amount is known and the amount can be reasonably estimated. Payments are a reduction of the liability.
Compensated absences	Expenditures recognized to the extent they are normally expected to be liquidated with expendable, available, financial resources.	Expense recognized in period in which it is accrued. Payments are a reduction of the liability.
Equity interest in joint venture	Usually not a financial resource so no impact upon the fund balance sheet or income statement.	Record based upon joint venture agreement. Initial investment at cost on balance sheet. Recognize results of operation, if value of interest changes for operations, on balance sheet and income statement.
Interest on long-term debt	Expenditures recognized in the period when the payment is due.	Expense recognized in period in which it is accrued. Payments are a reduction of the liability.

Exhibit B

	Accounting Treatment	
	Modified Accrual	Full Accrual
Inventory	Under the consumption method, recognize an asset when purchased and an expenditure as consumed. Under the purchase method, recognize an expenditure when purchased. An asset is recognized with an adjustment to a reserve account if year end balances are significant.	Recognize an asset when purchased. Expense as consumed
Loss on bond refunding	Other financing sources and uses recognized for amount of debt repaid, financing incurred.	Amortized over the life of the old or new debt, whichever is shorter.
Miscellaneous charges, services, and fees.	Recognize a receivable and defer any revenues not available at year end.	Recognize a receivable and revenues after adjusting for uncollectible accounts.
Net pension obligation	Not on balance sheet, no effect on expenditures.	Liability recorded, expenses increased.
Piped Natural Gas	Recognize a receivable and deferred revenue for 9/15 payment at June 30.	Recognize a receivable and revenue at June 30 for 9/15 payment.
Prepaid expenses	May recognize an asset when paid and an expenditure as consumed, or may recognize an expenditure when paid.	Recognize an asset when paid. Expense as consumed
Prepaid pension obligation	Footnote disclosure.	Asset on balance sheet, reduce expenses.
Property Tax-Motor Vehicles	Recognize receivable and deferred revenue on the first day of the fiscal year for bills sent out prior to the beginning of the fiscal year. Recognize a receivable and a deferred revenue when billed during the fiscal year. Recognize revenue and decrease deferred revenue when received. Recognize cash and deferred revenue for prepayments.	For government-wide statements, recognize deferred revenue as revenue after adjusting for uncollectible accounts. Recognize cash and deferred revenue for prepayments.

Exhibit B

	Accounting Treatment	
	Modified Accrual	Full Accrual
Property Tax-Other Than Motor Vehicles	Record receivable and deferred revenue when bills are sent out. Recognize revenue and decrease deferred revenue when received. Recognize cash and deferred revenue for prepayments. Add an allowance account for material uncollectibles.	For government-wide statements, recognize revenue for taxes billed for current period after adjusting for uncollectible accounts. Recognize cash and deferred revenue for prepayments.
Receiving donations of capital assets	Normally not reported in fund. Recognize revenue if held for resale and sold by report date.	Revenue is recognized.
Repayment of bond principle	Expenditure for debt service principal payments on the due date.	Reduction of liability for principal.
Sale or disposal of fixed assets	Other financing source for proceeds from sale of fixed assets. No expenditure for disposal of fixed assets.	Difference in book value and proceeds are recognized as a gain or loss. Gain on sale is reported as general revenue; losses included in general government. No gains or losses are recorded if the composite method is used.
Special assessments against property	Recognize receivable and deferred revenue when a legal claim to the funds arise. Recognize revenue and decrease deferred revenue as received.	Recognize receivable and revenue when a legal claim to the funds arise, after adjusting for uncollectible accounts.
Unauthorized Substance Tax	Record a revenue when payments are received; at June 30, record a receivable for the estimated receipts after year end for awards made prior to June 30th. Recognize a revenue for amounts received within 60 days of year end and defer revenue amounts received after 60 days.	Record a revenue when payments are received; at June 30, record a receivable for the estimated receipts after year end for awards made prior to June 30th.
Utility Franchise Tax	Recognize a receivable and deferred revenue for 9/15 payment at June 30.	Recognize a receivable and revenue for 9/15 payment at June 30.