
NO. 171-A | JUNE 1999

Governmental Accounting Standards Series

Statement No. 34 of the
Governmental Accounting
Standards Board

Basic Financial Statements—
and Management’s Discussion
and Analysis—for State and
Local Governments



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Fund Financial Statements

Funds—Overview and Definitions

63. Fund financial statements should be used to report additional and detailed information about the primary government. Governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds. (See paragraphs 64–73.)

- a. Governmental funds (emphasizing major funds)
 - (1) The general fund
 - (2) Special revenue funds
 - (3) Capital projects funds
 - (4) Debt service funds
 - (5) Permanent funds
- b. Proprietary funds
 - (6) Enterprise funds (emphasizing major funds)
 - (7) Internal service funds
- c. Fiduciary funds and similar component units
 - (8) Pension (and other employee benefit) trust funds
 - (9) Investment trust funds
 - (10) Private-purpose trust funds
 - (11) Agency funds.

Governmental Funds

64. Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. With the exception of permanent funds, those governmental funds are defined in NCGA Statement 1, as amended.

65. *Permanent funds* should be used to report resources that are 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.³² (Permanent funds do not include *private-purpose*

³²An example is a cemetery perpetual-care fund, which provides resources for the ongoing maintenance of a public cemetery.

trust funds, defined in paragraph 72, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of *individuals, private organizations, or other governments.*)

Proprietary Funds

66. Proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

67. *Enterprise funds* may be used to report any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's *principal revenue sources*.³³

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.³⁴

³³These criteria do not require insignificant activities of governments to be reported as enterprise funds. For example, state law may require a county's small claims court to assess plaintiffs a fee to cover the cost of frivolous claims. However, taxes, not fees, are the principal revenue source of the county's court system, and the fees in question cover only the cost of frivolous small claims court cases. In this case, the county would not be required to remove its court system or the small claims court activity from its general fund and report it in an enterprise fund. Conversely, a state department of environmental protection regulation may require a water utility to recover the costs of operating its water plant, including debt service costs, through charges to its customers—the utility's principal revenue source. Because these charges are the activity's principal revenue source and because the water utility is required to recover its costs, the utility should be reported as an enterprise fund.

³⁴Based on this criterion, state unemployment compensation funds should be reported in enterprise funds.

- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

68. *Internal service funds* may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

Fiduciary Funds

69. Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The three types of trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

70. *Pension (and other employee benefit) trust funds* should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

71. *Investment trust funds* should be used to report the external portion of investment pools reported by the sponsoring government, as required by Statement 31, paragraph 18.

72. *Private-purpose trust funds*, such as a fund used to report escheat property, should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

73. *Agency funds* should be used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Governmental and Proprietary Fund Financial Statements

74. Separate financial statements should be presented for the primary government's governmental and proprietary funds.

Focus on Major Funds

75. The focus of governmental and proprietary fund financial statements is on *major funds*.³⁵ Fund statements should present the financial information of each major fund in a separate column. Nonmajor funds should be aggregated and displayed in a single column.³⁶

76. The reporting government's main operating fund (the general fund or its equivalent) should always be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses³⁷ of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), *and*
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

³⁵Major fund reporting requirements do not apply to internal service funds.

³⁶Combining statements for nonmajor funds are not required, but may be presented as supplementary information.

³⁷Excluding revenues and expenditures/expenses reported as extraordinary items.