

## Chapter 80 - Accounting Policies

---

### **80.20**      **Generally Accepted Accounting Principles (GAAP)**

---

80.20.10	Purpose and scope	Nov. 1, 2004
80.20.20	What are accounting principles?	Nov. 1, 2004
80.20.30	Applicability	Nov. 1, 2004
80.20.40	Recognition of authoritative sources	Nov. 1, 2004
80.20.50	GAAP hierarchy	Nov. 1, 2004
80.20.60	Evolutionary nature of accounting principles	Nov. 1, 2004
80.20.70	Governmental GAAP requires fund accounting	Nov. 1, 2004
80.20.75	Fund categories used in governmental accounting	Nov. 1, 2004
80.20.80	Financial reporting requirements	Nov. 1, 2004
80.20.85	What is the financial reporting entity?	Nov. 1, 2004
80.20.90	Measurement focus and basis of accounting	Nov. 1, 2004
80.20.100	Accounting for capital assets and long-term obligations	Nov. 1, 2004
80.20.110	GAAP budgetary requirements	Nov. 1, 2004
80.20.120	Management's Discussion and Analysis	Nov. 1, 2004
80.20.130	Government-wide financial statements	Nov. 1, 2004
80.20.140	Fund financial statements	Nov. 1, 2004

## **80.20**

# **Generally Accepted Accounting Principles (GAAP)**

---

---

### **80.20.10 Purpose and scope**

Title 5 requires the Office of the State Controller to specify and establish the financial accounting and reporting standards and principles to be used by all State government and State agencies. This chapter defines the principles of accounting which underlie developing, implementing and operating the Advantage Accounting System (*formerly Maine Financial and Administrative Statewide Information System (MFASIS)*).

---

### **80.20.20 What are accounting principles?**

An accounting principle is defined by the American Institute of Certified Public Accountants (AICPA), as “a general law or rule adopted or proposed as a guide to action; a settled ground or basis of conduct or practice.”

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. GAAP establishes appropriate measurement and classification criteria for financial reporting. Adherence to GAAP provides a reasonable degree of comparability among the financial reports of State and local governmental units.

---

### **80.20.30 Applicability**

This chapter defines the basis and nature of accounting principles applicable to Maine State Government.

The accounting principles are intended to facilitate developing and maintaining a reliable, central source of timely fiscal information, which describes the financial condition of the State, reports on the stewardship of public resources, and provides analytical data for legislators, agency administrators, investors and the citizens of Maine.

Advantage does not preclude the use of internal, subsidiary accounting

systems of individual State agencies. However, the principles do apply to agency internal accounting and prescribe the nature of Advantage. Accordingly, they underlie developing formats and procedures by which all State agencies must report fiscal information to the Controller.

---

## **80.20.40 Recognition of authoritative sources**

In order to foster general acceptability of accounting principles, we researched the significant literature which is generally accepted in governmental accounting and related fields. Those sources which have contributed to defining accounting principles include:

- Government Finance Officers (GFOA), Governmental Accounting, Auditing and Financial Reporting
- Governmental Accounting Standards Board (GASB), Codification of Governmental Accounting and Financial Reporting Standards
- AICPA, Audits of State and Local Governmental Units

We consulted several other respected sources, including widely accepted accounting texts, relevant pronouncements and publications of the AICPA, GFOA, GASB, other publications, articles and accounting literature and individual governmental accounting experts.

The literature has historically addressed the general area of State and local government, rather than consider the more specific disciplines of recording, classifying and reporting State government financial information. Chapter 85 addresses the unique requirements of statewide accounting in Maine, by adapting widely accepted accounting principles to the environment in which they must operate.

---

## **80.20.50 GAAP hierarchy**

Accounting standards or principles established by the Office of the State Controller, in accordance with Title 5, take precedence in the GAAP hierarchy listed below. Unless the Controller establishes other accounting standards or principles, and incorporates them into SAAM and/or Advantage, GAAP hierarchy will be:

1. **Governmental Accounting Standards Board (GASB) Statements and Interpretations.** As well as, American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to State and local governmental entities by GASB Statements or Interpretations. For government-wide and proprietary fund reporting, only those applicable FASB pronouncements, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements, have been specifically included.
2. **GASB Technical Bulletins.** As well as, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position, if specifically made applicable to State and local governmental entities by the AICPA and cleared by the GASB.
3. **AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins** if specifically made applicable to State and local governmental entities and cleared by the GASB. Also, consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to State and local governmental entities.
4. **Implementation Guides (Q&A's) published by the GASB staff** and practices widely recognized and prevalent in State and local government.
5. **Other accounting literature**, including GASB Concepts Statements and AICPA and FASB pronouncements when not specifically made applicable to State and local governmental entities.

---

**80.20.60****Evolutionary nature of accounting principles**

State government operates in a dynamic environment, in which change is increasingly a factor – organizational and operational changes, procedural changes, changes in personnel, and changes in the level of financial sophistication within State agencies. Principles must underlie a system which will function effectively in a practical environment. The OSC has prescribed accounting principles at a practical level, while recognizing the dynamics of the environment and of the principles themselves.

Generally accepted accounting principles have evolved over a period of years. Their current status reflects the historical requirements of financial information users, as well as “best practices” in public sector financial management. As fiscal accountability is monitored more closely, these principles will be continually reviewed, evaluated and refined to meet the requirements for timely, complete and accurate financial information.

---

## **80.20.70 Governmental GAAP requires fund accounting**

Among the basic principles of governmental GAAP is fund accounting. Because of the diverse nature of governmental operations and the numerous legal and fiscal constraints under which those operations must be conducted, it is impossible to record all governmental financial transactions and balances in a single accounting entity. Therefore, unlike a private business which is accounted for as a single entity, a governmental unit is accounted for through separate funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts.

---

## **80.20.75 Fund categories used in governmental accounting**

Funds are categorized by type to indicate both the sources of the fund's financial resources and the nature of activities financed. There are three broad categories of funds used in governmental accounting.

80.20.75.a **Governmental Funds** - are used to account for most typical governmental functions. The acquisition, use, and balances of the State’s expendable financial resources and the related current liabilities (except those accounted for in proprietary funds), are accounted for through governmental funds. There are five types of governmental funds:

- **General Fund** - is used to account for all financial resources of the State not required to be accounted for in some other fund.
- **Special Revenue Funds** - are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.
- **Debt Service Funds** - are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

- **Capital Projects Funds** - are used to account for the acquisition and construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).
- **Permanent Funds** – are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the State or its citizenry.

80.20.75.b

**Proprietary Funds** - are used to account for a government's ongoing organizations and activities that are similar to businesses found in the private sector. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis. There are two types of proprietary funds:

- **Enterprise Funds** - are used to account for any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds, in the context of the activity's *principal revenue sources*, if any one of the following criteria is met:
  - a. The activity is financed with debt that is secured solely by pledge of the net revenues from fees and charges 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, or
  - 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).
- **Internal Service Funds** - are used to account for the provision of goods or services by one department or agency to other departments or agencies of the State, or to other governmental units, on a cost-reimbursement basis. Internal service funds should only be used if the State is the predominant participant in the activity.

80.20.75.c

**Fiduciary Funds** - are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units. There are four types of fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** - are used to report resources that are required to be held in trust by the State for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.
- **Investment Trust Funds** - are used to report the external portion of the Local Government Investment Pool, which is reported by the State as the sponsoring government.
- **Private-Purpose Trust Funds** - are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The resources held under these arrangements are not available to support the government's own programs.
- **Agency Funds** - are used to account for resources held by the State in a purely custodial capacity for other governments, private organizations or individuals.

---

**80.20.80**

**Financial reporting requirements**

80.20.80.a

**Interim Reports** – In order to facilitate management control, legislative oversight or other purposes, appropriate interim financial statements and reports of financial position, operating results and other pertinent information should be prepared.

80.20.80.b

**Comprehensive Annual Financial Report** – The OSC must prepare a comprehensive annual financial report covering all activities of the primary government and providing an overview of its discretely presented component units. The comprehensive annual financial report contains the following sections:

1. **Introductory Section**, which includes the table of contents and letter of transmittal.

2. **Financial Section**, which includes:

- the independent auditor’s report;
- management’s discussion and analysis (MD&A), (See Subsection 80.20.120);
- basic financial statements
  - government-wide financial statements, (See Subsection 80.20.130);
  - fund financial statements, (See Subsection 80.20.140); and
  - notes to the financial statements.
- required supplementary information (RSI) other than MD&A; and,
- combining and individual fund statements and schedules.

3. **Statistical Section.**

---

**80.20.85**

**What is the financial reporting entity?**

The financial reporting entity of the State consists of:

1. The primary government.

The primary government consists of all funds, agencies, departments, and organizations that make up the legal entity of the State.

2. Organizations for which the primary government is financially accountable.

Financial accountability is manifest when the primary government appoints a voting majority of the organization’s governing body **and** (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

3. Other organizations (including component units, joint ventures, jointly governed organizations, and other stand-alone governments) for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.



---

**80.20.90****Measurement focus and basis of accounting**

80.20.90.a

**Measurement focus** is concerned with *what* financial transactions and events will be recognized in the accounting records and reported in the financial statements. Measurement focus is concerned with the inflow and outflow of resources - what is being measured. While there are a number of measurement focuses, the following two are fundamental to current governmental accounting principles:

1. **Flow of economic resources** focus considers all of the assets available to the governmental unit for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded within the fund and depreciation is recorded as a charge to operations.
2. **Flow of current financial resources** focus measures the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period. The emphasis of this focus is on cash and assets that will become cash during or shortly after the current period. Long-term capital assets and long-term obligations are not recorded within a fund under this measurement focus.

80.20.90.b

**Basis of accounting** refers to *when* transactions and events will be recognized in the accounting records and presented in the financial statements. Governmental accounting transactions and events are recognized on either the accrual basis or the modified accrual basis.

1. **Accrual basis** of accounting records revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable.
2. **Modified accrual basis** of accounting recognizes revenues in the period in which they become available and measurable. Revenues are considered available when they will be collected either during the current period or soon enough after the end of the period to pay current year liabilities. Revenues are considered measurable when they are reasonably estimable. Expenditures are generally recognized when the fund liability is incurred, if measurable.

80.20.90.c

Under generally accepted accounting principles, the measurement focus and basis of accounting applied varies with fund type category.

1. **Governmental funds** focus primarily on the sources, uses and balance of current financial resources and often have a budgetary orientation. They employ the flow of current financial resources measurement focus and the modified accrual basis of accounting.
  - Revenues are recognized in the accounting period in which they become measurable and available.
  - Expenditures are recognized when incurred, if measurable, except for unmatured interest on general long-term obligations, which is recognized when due.
  - Prepayments and capital expenditures are not recorded as deferred costs to be allocated over future periods, but rather as current expenditures.
  - Assets and liabilities reported on the financial statements are limited to those representing current available resources or requiring expenditure of said resources.
  
2. **Proprietary funds** focus on the determination of net income, the changes in net assets (or cost recovery), financial position, and cash flows. They utilize the flow of economic resources measurement focus and the accrual basis of accounting.
  - Revenues are recognized in the period in which they are earned and become measurable.
  - Expenses are recognized in the period incurred.
  - This approach recognizes the deferral and capitalization of expenditures and the deferral of revenues.
  - Assets and liabilities reported represent all of the assets available and all of the liabilities outstanding.
  
3. **Fiduciary funds** focus on net assets and changes in net assets. Trust funds use the flow of economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans. Agency funds also use the accrual basis of accounting, but, since they are custodial in nature and do not involve the measurement of results of operations, they do not use a measurement focus.

---

## 80.20.100 Accounting for capital or fixed assets and long-term obligations

80.20.100.a **Capital (fixed) assets** of the State are accounted for at cost or, if the cost is not practicably determinable, at estimated cost. The cost of a capital asset includes its purchase price or construction cost, as well as the ancillary charges necessary to place the asset in its intended location and condition for use. Donated capital assets are recorded at their estimated fair value at the time received. Refer to Chapter 30 for the State's policy for capitalizing assets and for estimating the useful lives of those assets.

Due to the distinctive nature of governmental activities and fund accounting requirements, some capital assets are accounted for in proprietary and fiduciary funds while others are accounted for in the General Capital Assets Subsidiary Account.

80.20.100.a.(1) Capital assets used in proprietary and fiduciary funds, where the flow of economic resources is measured, are accounted for in the appropriate fund. Depreciation of capital assets accounted for in a proprietary or fiduciary fund is recorded in the accounting records of that fund.

Proprietary funds report capital assets both in the government-wide and fund financial statements. Capital assets of fiduciary funds are reported only in the statement of fiduciary net assets.

80.20.100.a.(2) General capital assets are capital assets used in the operations of governmental funds where the primary accounting purpose is to reflect the sources and uses of current financial resources. Since general capital assets do not represent financial resources available for expenditure, they are not reported as assets in governmental funds. Rather, they are capitalized and depreciated in the General Capital Assets Subsidiary Account, and reported in the governmental activities column in the government-wide statement of net assets.

80.20.100.a.(3) Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach. Depreciation expense is reported in:

- the government-wide statement of activities,
- the proprietary fund statement of revenues, expenditures, and changes in fund net assets, and
- the statement of changes in fiduciary net assets.

80.20.100.b **Long-Term Obligations** - Due to the fund accounting requirements of a government's operations, some long-term obligations are accounted for in certain funds (fund long-term obligations) and others are accounted for in the General and Highway Bond Funds.

80.20.100.b.(1) Long-term obligations associated with and expected to be paid from proprietary and fiduciary funds are accounted for in the appropriate fund. These obligations may be secured by a specific fund asset or revenue or may be backed by the full faith and credit of the State.

Proprietary funds should report long-term obligations both in the government-wide and fund financial statements. Long-term obligations of fiduciary funds are reported only in the statement of fiduciary net assets.

80.20.100.b.(2) All long-term obligations that are not accounted for in a proprietary or fiduciary fund are considered general obligations of the State. Since general long-term obligations represent debt that will be met by expending resources other than those considered current and available as of current balance sheet year-end, they should not be reported in governmental funds. Rather, they are accounted for in the General and Highway Bond Funds, and reported in the governmental activities column in the government-wide statement of net assets.

---

## **80.20.110 GAAP budgetary requirements**

Budgeting is recognized in GAAP as being a critical element of governmental planning, control and evaluation processes. GAAP budgetary requirements include:

- Budget(s) should be adopted by every government,
- The accounting system should provide the basis for appropriate budgetary control, and
- Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which budgets have been adopted. The budgetary comparison should present both the original and the final appropriated budgets for the period as well as actual inflows, outflows, and balances, stated on the State's budgetary basis.

Governmental funds of the State are budgeted primarily on a cash basis, with only a few exceptions for specific, legislatively-authorized, modified accrual, revenue adjustments. The required budgetary comparisons are presented as required supplementary information.

---

## **80.20.120 Management’s Discussion and Analysis**

The State’s financial statements are preceded by Management’s Discussion and Analysis (MD&A). The MD&A, which is classified as required supplementary information, is a narrative introduction, overview, and analysis of the State’s financial statements. It focuses on the primary government and is objective, easily readable, and based on currently known facts and conditions.

The MD&A introduces the basic financial statements describing the statements and their relationship to one another. With emphasis on the current year, it presents condensed comparative data and an analysis of the overall financial position of the State as well as an analysis of significant balances and operations of individual funds. The MD&A presents budget variances, significant capital asset (including infrastructure) and debt activity, and other potentially significant matters.

---

## **80.20.130 Government-wide financial statements**

The State presents two basic government-wide financial statements: the Statement of Net Assets and the Statement of Activities. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide financial statements present information about the overall State. All governmental and business-type activities are included, but fiduciary activities are excluded. Nonfiduciary component units are included.

**80.20.130.a Statement of Net Assets** – The purpose of the Statement of Net Assets is to display the financial position of the primary government and its component units. Governmental and business-type activities of the primary government are displayed in separate columns with a total column presenting a consolidated total (balances between governmental and business-type activities are eliminated).

Assets and liabilities are presented in a net assets format in order of liquidity. Net assets are classified into three categories: 1) invested in capital assets, net of related debt; 2) restricted net assets; and 3) unrestricted net assets. Net assets are reported as restricted when constraints are placed on asset use either externally, by creditors, grantors, contributors, or imposed by law through constitutional provision or enabling legislation.

- 80.20.130.b **Statement of Activities** - The purpose of a statewide Statement of Activities is to identify the extent to which each major State program is supported by general State revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business type activities, a major program is an identifiable activity.

---

**80.20.140 Fund financial statements**

- 80.20.140.a The fund financial statements focus on major individual funds of the State with non major funds aggregated into a single column regardless of fund type. In conjunction with the fund statements, the State presents a summary reconciliation between the fund financial statements and the government-wide financial statements.

At the fund statement level, governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary funds use the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are reported consistent with proprietary funds except for the recognition of certain liabilities of defined benefit pension plans.

80.20.140.b

The State's fund financial statements include:

**Governmental funds**

- Balance Sheet
- Statement of Revenues, Expenditures, and Changes in Fund Balances

**Proprietary funds**

- Statement of Fund Net Assets
- Statement of Revenues, Expenses, and Changes in Fund Net Assets
- Statement of Cash Flows

**Fiduciary funds**

- Statement of Fiduciary Net Assets
- Statement of Changes in Fiduciary Net Assets