MODIFIED ACCRUAL

DECISION-USEFUL

&

ACCOUNTABILITY-CENTERED

BY ROBERT J. FREEMAN

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Governmental Accounting Standards Board (GASB) Concepts Statement No. 1, Objectives of Financial Reporting, states that the purposes of financial reporting are public accountability and usefulness for making economic, social, and political decisions. The concepts statement also says, “Financial reporting is not an end in itself but is intended to provide information useful for many purposes. Financial reporting helps fulfill government’s duty to be publicly accountable … financial reporting objectives should consider the needs of users and the decisions they make.” Stated differently, the usefulness of accounting and financial reporting information depends on the decisions and decision-making processes it must facilitate.

**BUSINESS-TYPE ACTIVITIES**

Many governments engage in exchange and exchange-type activities financed by user charges levied on those receiving the goods and services provided. To the extent that the costs of these services are provided for by the user charges, a government has no reason to limit the level of services provided to users. Indeed, in situations such as modern-day lotteries — where user charges are set at a level intended to provide additional financial resources for governments to use for other purposes — governments seek to increase demand for those services and the additional financial resources.

In these situations, exchange and exchange-type information on the extent to which the charges for services cover the cost of providing the goods and services is critical to evaluating management of the operation, determining the level of services and rates charged, and judging the extent to which the activity is fulfilling its intended purpose. It long has been accepted by those that set standards for governments (including the GASB) and others that the primary information needed to manage and evaluate these business-type activities, accounted for in proprietary funds, is information on the flow of their economic resources (revenue and expense information) based on accrual accounting. Modified accrual information is not used to report these activities publicly, though it or similar information often is used in managing and internal reporting on such activities.

**Governmental Activities.** Most state and local government activities are not financed through user charges that are intended to cover the cost of the services. Rather, they are financed primarily through taxes and similar revenues raised from the constituency. The appropriate levels of sources of revenues raised and the types and levels of services to be provided cannot be determined directly by the willingness and ability of the individuals receiving the services to pay for them. The key decision-making, control, and accountability mechanism in these non-exchange activities is the legally adopted annual budget. The flow of economic resources measurement focus and accrual basis of accounting are not designed to provide the information required for the most fundamental decision and accountability needs associated with these activities.

**Budget Process Is the Key Decision-Making Process.** The budget process is the basis for deciding the types and amounts of revenues to be raised and the uses to which resources will be put to accomplish various general government objectives. The GASB’s recognition of this decision model and context pervades the general government discussion in its objectives concept statement, which indicates that the legally adopted budget is a government’s most significant financial document. Further, the concept statement says:

> Budgets result from the legislative process and require resolution of conflicting views about the way in which and extent to which financial resources will be raised and used. The citizenry participates in the budget process either directly or indirectly, through elected representatives or advocate groups. Once adopted, the budget is a formal expression of public policy on the entity’s objectives and priorities and on how resources will be provided to meet those objectives.

Budgetary expression of public policy, financial intent, control, and performance measures need to be considered when developing financial reporting objectives, even though financial accounting concepts of inflows and outflows may differ from budgetary concepts.
Another key element of the general government environment is the wide-ranging restrictions placed on the purposes for which certain financial resources may be used — through constitutional provisions, legislation, bond covenants, grant and contractual provisions, and other means — and using governmental funds to control and demonstrate compliance with such restrictions.

**Modified Accrual Information for Budgetary Decisions, Control, and Public Accountability.** Income determination-based information — which is linked to key decision making and evaluation of proprietary funds — is not designed to meet the most critical accounting and financial reporting information needs related to general government activities and decision processes. Instead, these non-proprietary activity information needs are most logically linked to — and met best through — information on sources, uses, and balances of expendable financial resources, segregated according to the purposes for which they may be expended. Indeed, the GASB states that the budget — as an expression of public policy and financial intent as well as a method of providing control — and the use of fund accounting for control purposes are so fundamental that they are viewed as environmental characteristics.

**MODIFIED ACCRUAL ACCOUNTING: PRE-GASB STATEMENT NO. 34**

Modified accrual accounting — the accrual basis of accounting for the flow of current financial resources — evolved over many decades. Enhancing transparency and public accountability has been a central role.

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**1934-35: National Committee on Municipal Accounting — Bulletins.** In 1934-35, the National Committee on Municipal Accounting (NCMA), of which Morey was a key member, issued a series of bulletins constituting the first formal guidance intended to be generally accepted accounting principles (GAAP) for governments. However, the NCMA bul-
letins may well have been viewed more like the Government Finance Officers Association (GFOA) Best Practices than as GAAP. The emphasis in these bulletins was on budgetary comparisons presented on a government’s budgetary basis. However, the bulletins recommended that governments adopt governmental fund budgets using an accrual basis of accounting for revenues and expenditures (not expenses).²

A key advantage of accrual-basis recognition of expenditures is that it avoids the possibility of certain cash basis budgetary maneuvers that balance a budget technically but do not conform to the spirit and intent of balanced budget provisions in state constitutions, laws, and regulations. For example, some states have changed their paydays from the last day of one fiscal year to the first day of the next to help “balance” their cash basis budgets in a time of fiscal stress. This kind of budget balancing maneuvers was no doubt common during the 1934-35 depression era.

1951 and 1968: National Committees on Governmental Accounting — “Blue Books.” The 1951 “Blue Book” and the 1968 “Blue Book” were issued by two successive GFOA-sponsored³ National Committees on Governmental Accounting — both of which continued to emphasize the paramount importance of budgetary comparison information and demonstration of legal compliance. The 1951 version recommended that government financial reports should also reflect current condition and operations in accordance with sound accounting principles, and it stated that “modifications” of the accrual basis were an accrual basis if the more important revenues and expenditures were accrued. The 1968 “Blue Book” continued to emphasize the primacy of legal compliance, including budgetary compliance — which took precedence over GAAP in case of legal compliance (GAAP conflicts) as well as the need to “also reflect condition and operations” with full disclosure and in accordance with GAAP applicable to governments. It also defined “modified accrual.”

By this time, the municipal bond markets were maturing and comparability among government financial reports across the nation was of growing importance. Both GAAP financial reporting and budgetary reporting were becoming necessary to provide investors with more comparable, understandable, and useful information for investment decisions. In addition, the demand for audits of government financial statements presented in accordance with GAAP for governments was emerging.

1979: National Council on Governmental Accounting — Statements 1 and 4. The National Council on Governmental Accounting (NCGA) redefined modified accrual accounting in NCGA Statement 1, Governmental Accounting and Financial Reporting Principles (see Exhibit 1). The link between the modified accrual basis and budgetary reporting can be seen in NCGA Statement 1, as in predecessor guidance.

The 1951 “Blue Book” recommended that governments adopt an accrual basis budget consistent with its guidance. Similarly, both the 1968 “Blue Book” and NCGA Statement 1 (issued in 1979 and later adopted as GAAP by the GASB) recommended that governments enact modified accrual basis budgets if it was practicable to do so. Clearly, the majority of the members of the bodies that issued these pronouncements believed that they had adopted a basis of accounting that was sound and appropriate not only for GAAP reporting but also to inform the budgeting process and budget-based decision making, control, evaluation, and accountability.

Two aspects of NCGA Statement 1 are especially noteworthy:
- Both GAAP and budgetary reporting were required.
- Budgetary disclosures required including an explanation of the budgetary basis and a reconciliation of the key budget and GAAP amounts — highlighting the differences between the government’s own budgetary flows and balances and those based on a more standardized method developed in part to enhance comparability with and among other governments.
### Exhibit 1: Modified Accrual — Pre-GASB Statement 34 Principal Development Phases

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| Pre-1930s (e.g., Lloyd Morey, 1927) | Budgetary comparison; budgetary basis | 1) Financial statements prepared primarily for internal restricted asset and budgetary accountability and decision making.  
2) Public reporting required to be comprehensive and intelligible to the average citizen. |
| 1934 – 1935 (National Committee on Municipal Accounting) Bulletins | Budgetary comparison; budgetary basis recommended an accrual budget in so far as possible | 1) Formal separation of accounting and financial reporting guidance for government organizations from that for the private and non-profit sectors.  
2) Emphasis on distinguishing expenditures from expenses.  
3) Recommended accrual revenues and expenditures budgetary basis “so far as practicable.”  
4) Did not define any basis of accounting. |
| 1951 National Committee on Governmental Accounting — first “Blue Book” | 1) Budgetary comparison; budgetary basis  
2) Recommended to “also reflect” current condition and operations | 1) Two new “legal compliance” principles added:  
• Must be able to show that legal provisions have been complied with.  
• Legal requirements take precedence “if conflict between legal and sound accounting provisions.  
2) First mention of possibly reporting both legal compliance and current condition and operations.  
3) “Basis of accounting” defined as time when revenues considered to be earned and expenditures considered incurred.  
4) Two related accrual basis classifications:  
• “Modifications” of accrual basis considered an accrual basis if “more important” revenues and expenditures accrued.  
• “Accrual basis” intended to include both the “complete” accrual basis and the “slightly modified” accrual basis.  
5) Noted that legal provisions may require a municipality to follow the cash or modified cash basis. |
| 1968 2nd National Committee on Governmental Accounting — second Blue Book | Budgetary basis; budgetary comparison (Also, system should enable full disclosure and fair presentation in terms of generally accepted principles of accounting applicable to governmental units.) | 1) Re-emphasized that:  
• Budgetary comparison is the “paramount” consideration — and must take precedence over basis of accounting per se.  
• If law requires cash basis budget, governments must account on a cash basis to accurately determine budget compliance.  
2) Re-emphasize 1951 requirement to “also reflect condition and operations” — with full disclosure — in accordance with generally accepted accounting principles applicable to governmental units.  
3) “Modified accrual basis” defined (for the first time) as “that method of accounting” in which:  
• Expenditures other than accrued interest on general long-term debt are recorded when liabilities are incurred.  
• Revenues are recorded when cash is received, except for material or available revenues that should be accrued to reflect properly the taxes levied and the revenues earned.  
4) Recommended use of the accrual basis for governmental funds since “use of the accrual basis is not feasible or practicable.” |
**Development Phase** | **Governmental Fund Change in Fund Balance Reporting and Basis** | **Analyses**
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1979 National Council on Governmental Accounting (NCGA) Statement I | GAAP (modified accrual basis); budgetary basis (modified accrual recommended); budgetary comparison | 1) “Modified accrual basis” redefined as an accrual basis where: • Revenues earned or levied recognized when available and measurable. • Expenditures recognized when fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which should be recognized when due.
2) Revenue and expenditure recognition discussed, explained, and illustrated in more detail.
3) Modified accrual basis deemed GAAP and recommended for budgeting.
4) Stated that the modified accrual basis should be used in measuring governmental fund financial position and operating results — noting that the accrual basis is necessarily applied differently in governmental funds.
5) “Available” revenue defined as collected • by year end or • soon enough after year end to pay the current-period liabilities, and collections can be used to pay these bills.
6) “Susceptible to accrual” defined — revenue that has been earned or levied and is both objectively measurable and available.
7) Accrued interest on unmatured long-term debt not recognized as an expenditure both because: • It will not require an appropriation in the following year, and its retirement will not take current-period financial resources, and • Financial resources typically transferred in to the debt service fund for its payment.
For both reasons, its settlement would not require the expenditure of present DSF financial resources, though note disclosure is appropriate.
8) Inventory and insurance (and similar services extending over more than one accounting period) may be either: • Charged to expenditures or • Reported as an asset initially and charged as an expenditure when used.

1984 NCGA Interpretation 10 | Requires both: • Explanation of non-GAAP budgetary basis used, and • Reconciliation of budgetary statements and GAAP statements | Many governments continued to budget on the cash basis, the cash and encumbrances basis, or otherwise.

NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, required that governmental fund expenditures for these items be reported when they would normally be liquidated from expendable financial resources (i.e., when due and payable). The influence of the budgetary link on modified accrual guidance is seen here because this directs expenditures to be recognized in
the period for which a government would normally raise revenues and enact appropriations to pay these costs as they come due. This expenditure recognition practice has been extended to many types of expenditures, including pension and other postemployment benefits (OPEB).

The practice of supplementing government employees’ current compensation by providing postemployment benefits became prevalent 40 to 50 years ago. These future benefits often created significant long-term liabilities or commitments that did not require voter approval, did not require increasing current taxes, and usually did not finance construction or acquisition of long-term assets — the traditional purpose of the overwhelming majority of long-term debt issues. Similarly, many governments were incurring significant unfunded liabilities for compensated absences that resulted in large cash payments to employees at termination.

The publicity arising from the New York City fiscal crisis of the 1970s and the subsequent NCGA Statement 4 provisions raised interperiod equity concerns. While demonstrating interperiod equity may be a desirable financial reporting objective, neither modified accrual nor any other “funds flow” reporting model is designed to achieve this objective. Thus, to fault modified accrual accounting for governmental funds for not meeting this particular reporting objective would be inappropriate, especially if it is meeting other critical needs. Indeed, to modify the method in a futile attempt to “better” demonstrate interperiod equity, as critics have sometimes called for, would fail to recognize the inherent nature and objectives of the method.

Income-based information certainly does not meet every accountability and information need for proprietary activities. Likewise, not all information needs related to governmental activities will be met by modified accrual based governmental fund financial statements. Still, modified accrual financial statements provide relevant, valuable information related to general government decision-making needs and processes. Moreover, this information is especially important because the decision-making context is a matter of law — laws developed to assure legal compliance and protect against a variety of potential abuses in government. Nonetheless, controversy about demonstrating interperiod equity, which became one of the GASB’s financial reporting objectives, was a key factor motivating the GASB projects that led ultimately to the issuance of GASB Statement No. 34, Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments.

GASB STATEMENT NO. 34 AND INTERPRETATION 6

GASB Statement No. 34 has been recognized for requiring government-wide financial statements that are presented using a flow of economic resources measurement focus, on an accrual basis. These statements were designed to provide information on interperiod equity. An equally important contribution of GASB Statement No. 34, however, is that it retained and enhanced fund-based financial reporting, including reporting of general government activities in governmental funds using modified accrual accounting. GASB Interpretation 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was issued less than a year after GASB Statement No. 34 and provided key guidance regarding when governmental fund liabilities and expenditures should be recognized.

In explaining why it retained the modified accrual basis for governmental fund financial statements, the GASB notes the primacy of accountability and that different decisions require different types of information. The GASB further discusses the need for two types of accountability: fiscal accountability and operational accountability.

The GASB Statement No. 34 basis for conclusions defines fiscal accountability as “the responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of
public moneys in the short term (usually one budgetary cycle or one year).” Indeed, the statement indicates that fiscal accountability is the most essential, fundamental accountability responsibility, stating:

At a minimum, governments should provide information “to assist in evaluating whether the government was operated within the legal constraints imposed by the citizenry” … The Board established this lower limit — and has maintained it as a basic premise throughout the Financial Reporting Model project — because, in a democracy, it is critically important for governments to communicate information that will help users evaluate compliance with laws and regulations governing the raising and spending of public moneys.

Clearly, the GASB views fiscal accountability as grounded in budgetary accountability and decision making, and understands the link between modified accrual accounting and the budgetary process and accountability. Indeed, GASB Statement No. 34 explains in detail why it prefers modified accrual accounting to permitting each government to report its governmental funds on the government’s own budgetary basis:

The Board acknowledges that requiring the budgetary basis for governmental fund financial statements has conceptual appeal, given the current spending and budgetary and fiscal compliance focus of information reported in the governmental funds...

The principal disadvantages are the variety of budgetary methods used in practice and the lack of nationwide standards for budgeting. Variations in practice include not only the measurement methods used but also what is included in the budget. Many governments do not include all governmental funds in their budgets; there is no “budgetary basis” for these [omitted] funds. The absence of uniform standards for budgeting would result in a reduction in the comparability of governmental fund financial statements of similar governments, as well as a potential lack of year-to-year consistency for governmental fund financial statements of the same government owing to changes in budgetary methods.

The lack of consistency and comparability could be a particular problem for financial analysts and other members of the financial community...

MODIFIED ACCRUAL TODAY

Accrual accounting for revenues and expenses — whether of a proprietary activity or of a business — is rooted in the decision-making processes with the most significant impact on those activities. General government activities are directed, managed, and evaluated using a very different decision-making context and process — the budget process. Not surprisingly, the development of modified accrual accounting for governmental funds used to report those activities is linked significantly and logically to the budgetary decision-making, control, and evaluation processes. The ultimate outcome of the budget process is a determination of how financial resources will be raised (inflows of expendable financial resources) to finance and pay for the activities of the government (outflows of expendable financial resources) for the period. The conceptual underpinnings of modified accrual accounting are rooted primarily in an effort to present a logical matching of governmental fund expenditures with the revenues and other financial resources raised to pay for those expenditures.

The governmental fund balance sheet reports all financial assets and related liabilities that are payable in the current period from the portion of financial assets that can be used to pay the related liabilities of the period. The residual balance reflects the excess of the portion of existing financial assets that can be used to pay the period’s liabilities over the liabilities at period end. This residual balance provides a measure of the amount of net financial resources available for financing the next period’s activities.

The operating statement essentially reflects the extent to which financial resources that became available to spend in order to meet the needs of the current period exceed the sum of liabilities incurred during the period that normally require payment in the near-term, and long-term liabilities incurred in prior periods that come due in the current period.
Consider the logic behind these key aspects of modified accrual accounting:

- Revenues are recognized only if collected by year end or soon enough thereafter to be used to pay the liabilities of the period.
  - GAAP limits this period after year end to 60 days for property tax revenue recognition.
  - This provision prevents recognition of governmental fund revenues that are not received in time to pay for governmental fund expenditures in the current year.

- GASB Interpretation 6 requires liabilities and expenditures for goods and services such as salaries, utilities, and contractual services to be accrued at year end because the GASB’s view is that the norm for governments is to provide for payment of such items from available expendable financial resources.

- Debt service expenditures on general long-term debt are recognized when they mature. This is because property taxes are typically levied for debt service in the year it matures (“when due”), and there is no appropriation in the current year for debt service coming due in the following fiscal year.

- The original option to accrue debt service on general long-term debt at year end was limited to accruing principal and interest due so early in the next year that its payment was likely already made to a fiscal agent in the current year — meaning that current-year debt service taxes would have been levied and appropriations adopted to provide for the payment.

- The GASB Interpretation 6 delay of expenditure recognition until due for general government pensions, other postemployment benefits, vacation and sick leave, claims and judgments, and other costs incurred to provide current services is consistent with the logic that neither current-year taxes (or other revenues) nor current-year appropriations are required to provide for those expenditures, as discussed earlier.

- Expenditures for materials and supplies and prepaid items are permitted to be reported as expenditures either in the period purchased or in the period used — allowing governments to use the same expenditure measurement for both budgetary and GAAP purposes. While usually immaterial in general government activities other than capital projects, material amounts of inventories are required to be reported at year end, even when expenditures are recognized in the period purchased.

Note the influence of sound budgetary logic in the reasoning behind many of these practices.

**THE GASB AND THE FUTURE OF MODIFIED ACCRUAL ACCOUNTING**

The link between modified accrual accounting and budgetary accounting and reporting, though clearly acknowledged by the GASB, has been strained by recent standards-setting changes. This strain results partly from misplaced criticisms related to interperiod equity; partly from the failure of some to understand and appreciate the link between modified accrual accounting and reporting and budgetary accounting, and reporting and the related information needs; and perhaps partly because government-wide financial reporting and operational accountability issues have absorbed much of the GASB’s attention recently.

The importance of budgetary reporting was reaffirmed in one of the NCGA’s last official pronouncements, NCGA Interpretation 10. However, the GASB has de-emphasized budgetary reporting and accountability relative to prior standards. Indeed, under GASB Statement No. 34, the budgetary comparison statement is no longer required to be presented as a basic financial statement, but can be included after the notes as required supplementary information (RSI). It is hard to understand the logic of an optional basic (required) financial statement for which RSI treatment is an acceptable substitute, and the possibility that this treatment could serve as a precedent is troubling.

Governments thus can now receive unqualified audit opinions on their basic financial statements without presenting a budgetary comparison for the general fund. This disturbing change in status is hard to reconcile with the central statement of the GASB’s financial reporting objectives (in GASB Concepts Statement No. 1) that highlights the importance of budgetary information by the order of the listing:

Financial reporting by state and local governments is used in making economic, social, and political decisions and in assessing accountability primarily by:

a. Comparing actual financial results with the legally adopted budget
b. Assessing financial condition and results of operations
c. Assisting in determining compliance with finance-related laws, rules, and regulations
d. Assisting in evaluating efficiency and effectiveness.
The new fund balance classifications established in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, are a more recent strain on this link. The new fund balance classifications focus on purpose-related constraints on resource use but do not communicate current liquidity — the availability of fund balance to finance expenditures in the near term.

**CONCLUSIONS**

The future of modified accrual and its usefulness depends largely on the GASB. The GASB is in the midst of a significant government financial reporting conceptual framework effort. This gives it a unique opportunity to articulate a conceptual foundation that recognizes and accentuates the strengths and benefits of modified accrual accounting and governmental funds, while supplementing that with an understanding of which user needs are best met by this method and which user needs require other information and financial statements.

If fiscal accountability information (i.e., on budgetary and budgetary-related flows of financial resources) is subordinated to information for other reporting objectives, the GASB will develop financial reporting requirements that do not adequately provide for the most basic decision-making and accountability needs of state and local governments and the other users of their financial statements prepared in accordance with GAAP.

The GASB’s objectives concepts statement notes that “All three user groups are interested in comparing original or modified budgets with actual results. For example, to assess accountability, citizens and legislative and oversight bodies want to ensure that resources were used in accordance with appropriations.” Throughout its development modified accrual accounting has had its roots in budgetary accountability and condition, as acknowledged in GASB Statement No. 34.

The interests of external users such as rating agencies and bond analysts in modified accrual, fund-based data (e.g., fund balance information) are well known. Even now, many users are more interested in understanding a government’s ability to meet the current financial resource demands that must be faced now and in future years for pensions, OPEB, and similar items than the total amount of the liability. While the two are related, the potential inability to make those payments without severe reductions of services or increases in taxes is the focus of concern.

In its pursuit of sustainability, interperiod equity, and cost of services information, it is important that the GASB not lose sight of the critical role that budgetary accounting and reporting play in a government’s decision-making and accountability process and of the significance of the tie between this decision process and modified accrual financial reporting. Likewise, in its current projects on financial reporting concepts — its recognition and measurement attributes project in particular — and in its standards setting, the GASB should be mindful that modified accrual accounting has its roots in budgetary accountability. Indeed, these projects need to articulate the conceptual underpinnings for this critical fiscal (budgetary) accountability to modified accrual accounting linkage to guide and maximize the value of the GASB’s future standards-setting efforts related to the flow of current financial resources measurement focus and the modified accrual basis of accounting.

If the fundamental link between the modified accrual basis and budgetary accounting and reporting is severed, the modified accrual basis of the future will not be the same basis — nor serve the same purpose — as in the past. If modified accrual accounting is “cleansed” of its budgetary ties, it will become a sanitized accounting approach with no strong ties or usefulness to government’s most significant and pervasive decision-making processes and information needs. In an environment in which budgetary reports have been deemphasized and the modified accrual basis is sometimes viewed as a collection of accounting conventions without a core logic, which have been brought together on an ad hoc basis over time, the possibility of a sanitized model does not seem unrealistic.

The GASB’s conceptual framework projects are critical. Attaining the benefits such projects offer to articulate, improve, and enhance modified accrual accounting will require a conscious effort on the part of the GASB to strengthen the connection between it and the general government and governmental fund decision processes and related user needs. It will also require the thoughtful input of the GFOA, other public
interest groups, and knowledgeable practitioners and government officials. Failure to do so may leave us with financial statements that are not logically related to governments’ must basic decision processes and which fail to provide adequately for one of the most basic accountability responsibilities of governments.

Notes
2. Expenditures are the outflow of net financial resources of a governmental fund during a period for operations, capital outlay, and long-term debt interest and principal retirement. With the exception of long-term debt principal retirement, they reflect the net financial resource outflows for goods or services acquired during a period. Expenses reflect the cost of assets or services used or consumed during a period. The clearest example of the distinction relates to capital assets. Expenditures are incurred for these assets when purchased, whereas expenses are incurred over the periods of their use.
3. The GFOA was known at this time as the Municipal Finance Officers Association, or MFOA.
4. “Interperiod equity” refers to the concept that current-year revenues should be sufficient to pay for the services provided that year — versus whether current-year services will consume net assets accumulated from prior-year revenues or will require future taxpayers to assume burdens for current services.
5. Financial assets are cash and other assets that will result in cash. The GASB defines financial assets as including materials and supplies inventories and prepaid items, which are typically immaterial in governmental funds.

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