


Fund Accounting Principles and Practices

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Our Very Ambitious Agenda


- Overview of governmental GAAP
 - Fund accounting and financial reporting
 - Government-wide accounting and financial reporting
 - Converting governmental funds to governmental activities
 - “Walk-through” the financial statements (now there is something to live for!)



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GAAP and the Governmental Environment



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GAAP Hierarchy

GASB Statement No. 76



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New GAAP Hierarchy

- GAAP hierarchy has been reduced to two authoritative and one nonauthoritative levels
- Modifies GASB Statement No. 55
- First level is GASB Statements
 - Guidance must be formally approved by the Board and publicly exposed for comment without limitations
 - Previously-issued GASB Interpretations are included in this category
- Second level includes primarily Technical Bulletins, approved AICPA guidance, and newly revised CIG
 - Guidance must be cleared by the Board and publicly exposed for comment without limitations
- Effective date – fiscal years beginning after June 15, 2015



New GAAP Hierarchy (cont.)

- Nonauthoritative level includes
 - GASB Concepts Statements
 - Widely recognized and prevalent practices
 - FASB Accounting Standards Codification
 - Guidance from other accounting standards boards
 - Other accounting literature
- If accounting treatment not specified in authoritative GAAP:
 - Consider authoritative guidance for similar practices
 - Then may look at nonauthoritative guidance for the sources above



What are the practical effects?

- The Implementation Guides will now be subject to an exposure period
- If guidance for a transaction or event is not specified within a source of authoritative GAAP, a governmental entity should first consider accounting principles for similar transactions and then may consider other accounting literature.



Practical Effects (cont.)

- If the guidance for a transaction or event is not specified within a source of authoritative GAAP or cannot be analogized to similar transactions within a source of GAAP, governments should not select an accounting policy from a nonauthoritative source that conflicts with or contradicts authoritative GAAP.



GAAP and the GASB

- What is the Financial Accounting Foundation (FAF)?
- Role of the GAAP hierarchy
- GASB structure
 - 7-member board
 - Staff of approximately 15
- What is “due process”?



Who uses governmental financial information?

- Management?
- Creditors?
- Legislative and oversight bodies?
- Citizens groups and others?



The Governmental Financial Reporting Model



Overview of Fund Accounting

- Governmental entities must use fund accounting
- What is a fund?
- Categories of funds
 - Governmental
 - Proprietary
 - Fiduciary



Governmental Funds

- General fund
 - Main operating fund
 - Unit has only one general fund
- Special revenue fund
 - Specific revenue sources
 - General fund of blended component units



Governmental Funds (cont.)

- Debt service
 - Use when legally required
 - Used when resources are being accumulated for debt repayment in future years
- Capital projects
 - Acquisition/construction of major facilities or assets
 - Use when legally required
- Permanent
 - Earnings (not principal) used for government programs (e.g., benefits government / citizenry)



Proprietary Funds

- Enterprise funds
 - Similar to private sector accounting
 - Use when complete cost identification is needed (e.g., developing user fees)
 - Required by GAAP?
 - Risk pools
 - State unemployment compensation funds



Proprietary Funds (cont.)

- GASB 34 considerations
 - Fee charged to external users
 - Required under the following conditions:
 - Debt secured solely by a pledge of net revenues
 - Laws / regulations require costs to be recovered with fees and charges (e.g., not with taxes)
 - Pricing policies designed to recover all costs



Proprietary Funds (cont.)

- Internal service funds
 - Similar to private sector accounting
 - Evidenced by *internal* customer base (sometimes base may be extended to other governmental entities)
 - *Never* required by GAAP
 - Simple cost identification and allocation method
 - Government must be predominant participant
 - otherwise use an enterprise fund



Fiduciary Funds

- Pension trust funds
 - Defined benefit / contribution / other plans
- Investment trust funds
 - External pools as per GASB Statement No. 31
- Private purpose trust funds
 - Trusts that benefit individuals / other organizations
- Agency funds
 - Pure custodial capacity



Measurement Focus

- *WHAT* is being measured in a fund
- Governmental funds
 - Flow of current financial resources
 - Measures resources and uses of CASH
- Proprietary and trust funds / government-wide reporting
 - Flow of economic resources
 - Measures ALL transactions



Where are the *real* differences in these measurement focuses?

- Proceeds of long-term debt
- Repayment of principal on long-term debt
- Capital outlay
- Concept of depreciation
- Deferrals and amortization
- Treatment of bad debts



Basis of Accounting

- *When* does measurement occur in a fund
- Governmental funds
 - Modified accrual basis of accounting
 - Revenues recognized when *measurable* and *available*
 - Expenditures generally recognized when fund liability is incurred
 - Fund vs. long-term liabilities



Basis of Accounting (cont.)

- Proprietary, trust, and agency funds / government-wide reporting
 - Accrual basis of accounting
 - Revenues recognized when *measurable* and *earned*
 - Expenses recognized when a liability has been incurred



Major Fund Reporting

- Designed to focus on funds that report the majority of assets, liabilities, revenues, and expenses/expenditures
- Establishes *minimum* reporting requirements
- Applies only to governmental and proprietary funds (enterprise only)
- Fiduciary funds reported by fund-type



Effect on Statements

- General Fund is *always* a major fund
- Each major fund presented in a separate column
- Nonmajor funds are aggregated and presented in *single* separate column
 - Combining presentations are *not* required by GAAP, but are required by the LGC staff and GFOA Certificate Program
 - Combining information reported as *supplementary information*



Identifying Major Funds

- Two-step process
 - 10% criteria
 - 5% criteria
- *Both* steps must be met *in corresponding category* (not an either/or situation)
- Major fund designation could change



Government-wide Reporting

- Focus is on *activities*
 - Governmental activities
 - Business-type activities
- Fiduciary information *not* reported
- Consistent measurement focus and basis of accounting for both activities



Governmental Activities

- Governmental funds added together
 - Measurement focus converted from current financial resources to total economic resources
 - Basis of accounting converted from modified accrual to full accrual
- Capital assets reported
- Long-term liabilities reported



Business-type Activities

- Enterprise funds added together
- Same measurement focus and basis of accounting
- Internal service funds are dispersed back to departments or functions at the government-wide level



Budgetary Reporting Requirements as per GASB 34

- Budgetary reporting should still mirror local or state requirements (in accordance with the legal level of budgetary control)
- Budgets may be reported as either *per GAAP*
 - Basic financial statements
 - Required supplementary information



Format of reporting

- Original and *amended* budget amounts must be reported
 - General fund
 - *Major annually* – *budgeted* special revenue funds
 - All other funds' budgets reported as supplementary information in current format – both annual and project budgets – original budget column not required
- Optional variance columns

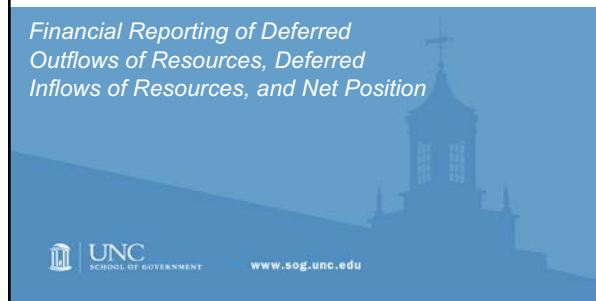


Classification & Terminology



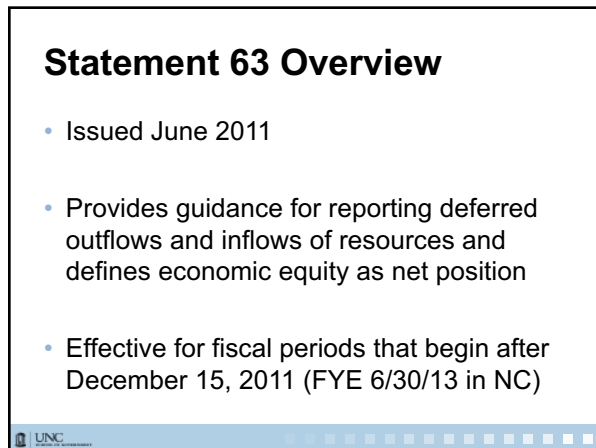
GASB Statement No. 63

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position



Statement 63 Overview

- Issued June 2011
- Provides guidance for reporting deferred outflows and inflows of resources and defines economic equity as net position
- Effective for fiscal periods that begin after December 15, 2011 (FYE 6/30/13 in NC)



Brief History

- Concepts Statement No. 4, *Elements of Financial Statements*, defines five elements of financial position
 - Assets
 - Liabilities
 - Deferred outflows of resources
 - Deferred inflows resources
 - Net position



Brief History (cont.)

- Deferred outflows of resources
 - Defined as a consumption of net assets by a government that is applicable to a future period
- Deferred inflows of resources
 - Defined as an acquisition of net assets by the government that is applicable to a future period



Reporting Guidelines

- Deferred outflows of resources should be reported in a separate section following assets
- Deferred inflows of resources should be reported in a separate section following liabilities
- Added to respective totals of assets and liabilities



Reporting Guidelines (cont.)

- Statement of Net Position
 - Reports assets, deferred outflows, liabilities, and deferred inflows
 - Net position format encouraged (assets plus deferred outflows, less liabilities less deferred inflows)
 - Net *position*, rather than net assets, reported for proprietary, fiduciary, and government-wide positions



Elements of Net Position

- Net investment in capital assets
 - Includes deferred outflows/inflows that are attributable to capital assets
- Restricted net position
 - Includes unspent related debt proceeds or deferred inflows that are unspent
- Unrestricted net position



Financial Reporting for Governmental Funds

- Deferred outflows and deferred inflows should be presented in the following format for governmental funds:

Assets plus Deferred Outflows of Resources
equals
Liabilities plus Deferred Inflows of Resources
plus
Fund Balance



GASB Statement No. 65

Items Previously Reported as Assets and Liabilities



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Deferred Outflows of Resources

- Grant *paid* in advance of meeting time requirements
- Deferred amounts (debits) from debt refunding (excess of reacquisition price of refunded debt over net carrying amount)
- Decrease in fair value of derivative instrument associated with an effective hedging arrangement



Deferred Inflows of Resources

- Grants *received* prior to meeting of any timing requirement
- Resources received in advance related to an imposed nonexchange transaction (e.g., prepaid property taxes)
- Revenue of a governmental fund not recognized solely because availability requirements have not been met
- Deferred amounts (credits) on current and advance refundings (excess of net carrying amount of refunded debt over reacquisition price)
- Increase in fair value of hedging derivative instrument



Inflows of Resources (Revenues)

- Loan origination fees
- Commitment fees



Outflows of Resources (Expenses)

- Debt issuance costs (except for prepaid insurance)
- Initial direct costs of operating leases by lessor
- Acquisition costs for insurance entities and public entity risk pools
- Loan origination costs



Assets

- Grants *paid in advance* of *eligibility* requirements
- Purchase of future revenues from a government outside of the financial reporting entity
- Prepayments (other than those discussed earlier)
- Pension plan's net position exceeds total pension liability



Liabilities

- Derived tax revenues received in advance
- Premium revenues (applicable to risk pools)
- Grants *received in advance of eligibility* requirements



Other Items

- "Deferred" should only be for deferred outflows and inflows of resources
- Major Fund criteria amended
 - Assets + deferred outflows of resources
 - Liabilities + deferred inflows of resources
- For deferred inflows and deferred outflows of resources
 - no distinction between current and noncurrent is needed



Classes of Transactions

- Transaction – involves an outside party
- Interfund activity – transaction-like activity between funds
- Three classes of transactions
 - Exchange
 - Exchange-like
 - Nonexchange
- Guidance as per GASB Statements No. 33 and 36



Exchange Transactions

- “Each party receives and gives up essentially equal values”
- Receivables, liabilities, revenues and expenses/expenditures generally recognized as they occur
- Governmental fund revenue recognition restricted by timing of payments or collections
- Examples – Utility charges



Exchange-like Transactions

- Public sector transactions often have elements other than pure exchanges
 - Values exchanged related but not quite equal
 - Direct benefits may not be exclusively for parties involved in the transaction
- Examples....
 - Regulatory or professional licenses
 - Some grants and donations
 - Some services performed by 1 government for another government



Exchange-like (cont.)

- Accounting and financial reporting is typically the same as for exchange transactions
- Governmental funds are still further restricted by the confines of modified accrual accounting



Nonexchange Transactions

- Common transactions for public sector entities
- Transactions do *not* involve exchanges of equal or similar value
- Examples...
 - Taxes
 - Grants



Nonexchange Transactions (cont.)

- Four classes of nonexchange transactions
 - Derived tax revenues
 - Imposed nonexchange revenues
 - Government-mandated nonexchange transactions
 - Voluntary nonexchange transactions



Derived Tax Revenues

- Assessments on exchange transactions
- Examples....
 - Income taxes
 - Occupancy taxes
 - Sales tax
- Receivables and revenues recognized when underlying exchange transaction occurs
- Governmental funds must also consider availability for revenue recognition



Imposed Nonexchange Transactions

- Assessments by governments on nongovernmental entities *other than* assessments on exchange transactions
- Examples....
 - Property taxes
 - Fines and forfeitures



Imposed Nonexchange (cont.)

- Assets recognized as soon as an enforceable legal claim exists or assets received, whichever is first
- Receivables recognized when enforceable legal claim exists
- Recognition dependent upon when resources may first be used or period they are intended to fund
 - Enforceable legal claims may be after period of levy...GAAP requires recognition in levy period
 - Governmental funds must consider availability



Government-mandated Nonexchange Transactions

- Government at one level provides resources to a government at another level....provider government mandates recipient's use for specified purpose(s)
- Examples....
 - State grants for road improvements
 - Federal grants for drug enforcement
- Accounting and financial reporting the same as voluntary nonexchange transactions – eligibility requirements have been met
- Appropriations should be in place



Voluntary Nonexchange Transactions

- Voluntary agreements between two parties
- Examples....
 - Grants and entitlements
 - Most donations
- Resource recipients normally recognize receivables and revenues when all eligibility requirements have been met
- Governmental funds consider availability



Unique Governmental Fund Transactions

- Other financing sources
 - Issuance of debt
 - Face amount of debt shown separately
 - Premiums also shown separately
 - Interfund transfers
 - Proceeds of the sale of capital assets
 - Insurance recoveries (if not extraordinary item)
- Other financing uses
 - Interfund transfers
 - Refunding transactions
 - Issuance discounts on long-term debt



Governmental Fund Equity / Fund Balance

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned



Nonspendable Fund Balance

- Portion of fund balance/net resources not in spendable form *or* nonspendable for foreseeable future
 - Inventories
 - Prepayments
 - Long-term receivables
- Portion of fund balance/net resources required to remain intact
 - Permanent Fund principal



Restricted Fund Balance

- *Resources* in a governmental fund subject to *externally enforceable* constraints on spending
 - Debt covenants
 - Grantors
 - Contributors
 - Enabling legislation (e.g., taxes raised for a particular purpose)
 - Restricted by State Statute (Stabilization)



Committed Fund Balance

- Formal legal constraints placed by the *governing board*
 - *Formal action necessary to create OR rescind*
- Constraints have to be in place *no later than the end of the fiscal period*
- Ability to rescind differentiates committed from restricted net assets



Assigned Fund Balance

- Reflects a government's *intended* use of resources (i.e., earmarking)
 - Assignments may occur anytime *before* the *issuance* of financial statements
- Assignment ability may be delegated by the board (commitments may not be)
 - Less formal
- Default category for governmental funds *except* general fund (unless those amounts are negative)



Unassigned Fund Balance

- Residual category for general fund
- Reflects *deficit* fund balance for other governmental funds
- Impossible to report *positive* assigned fund balance and *negative* unassigned fund balance
 - Assigned amount has to be eliminated before negative unassigned may be reported



Proprietary Fund and Government-wide Equity

- Net investment in capital assets
- Restricted net position
- Unrestricted net position



Net Investment in Capital Assets

- Start With Capital Assets
- Deduct Accumulated Depreciation
- Deduct Related "Capital" Debt



Net Investment in Capital Assets (cont.)

- Portion Of Debt Related To Unspent Proceeds Should Be Shown As Restricted
- Debt Used For Another Government's Capital Purposes – Note Disclosure Possibilities
- Unless A Significant Amount Of Debt Is Used For Non-capital Purposes - All Considered Capital Debt
- Refunding Bonds For Capital-related Debt



Restricted Net Position

- Reported As Restricted When Constraints Are Placed On Asset Use Either Externally From Creditors, Other Govts., Etc. Or Legislation – Can't Be Removed Without Consent Of Those Imposing Restrictions Or Due Process
- Show Material Restrictions On Face Of Statement



Unrestricted Net Position

- What is left.....



Extraordinary Items

- *Both* unusual and infrequent in nature (APB 30)
- Not under management control
 - Environmental disaster
 - Natural disaster (location may determine)
 - Large bequest by citizen to a small government



Special Items

- *Either* unusual or infrequent in nature
- Should be material – materiality may vary between statements
- Within management control
 - Sales of *certain* governmental assets
 - Special termination benefits
 - Early retirement programs
 - Significant *forgiveness* of debt
- Should be reported *before* extraordinary items



Governmental Funds



General Fund

- Definition
- Required by GAAP and limited to one per governmental unit
- Blended component units
 - One General Fund of primary government only
 - General Fund of blended component unit becomes a Special Revenue Fund for the reporting entity



Special Revenue Fund

- Definition – specific revenue resources
 - Does not include debt service or capital projects



General and Special Revenue Funds

- Measurement focus
 - Current financial resources
- Basis of accounting
 - Modified accrual



Revenue Recognition - Modified Accrual

- Revenue recognized when “susceptible to accrual”
 - Measurable and available
 - Available means collected or to be collected soon enough to pay liabilities of current period
 - Legal availability must be considered
 - Availability periods differ among governments
 - Revenue reported net of allowance for uncollectible accounts



Property Tax Revenue Recognition Issues

- Receivable recorded as of the levy date
- Property tax revenue “susceptible” when...
 - Physically collected (as long as revenue is not collected before period intended to finance)
 - Collections are no more than 60 days after the end of the reporting period



Sales Tax Revenue Recognition

- Sales tax recognized as per GASB #33 – underlying sale has taken place
 - Measurable and available criteria apply
 - Sales taxes “in hands” of government collecting agents (e.g., merchants) should be accrued – when exchange takes place



Miscellaneous Revenue Recognition Issues

- Many revenues simply recognized as collected in cash
 - Permits
 - Various licenses
 - Parking tickets and other punitive fees
 - Other revenues not measurable at year end



Recognizing Entitlements and Shared Revenues

- Entitlements/shared revenues
 - Measurable and available criteria appropriate
 - No recognition for revenue collected in advance of period intended to finance (deferred revenue)
 - Revenue and receivable possible if not collected, but measurable and available
 - All eligibility requirements, including time requirements, have been met



Expenditure-driven Grant Revenue Recognition

- Revenue recorded when...
 - Grant-related expenditures have occurred
 - Other grant-related requirements have been met
- If payment has not been received...
 - Record revenue and receivable (if measurable and available criteria have been met)



Revenue Recognition - Donations

- Financial resource donations
 - Receivable when a legal claim established
 - Revenue recognized when measurable and available
 - Most donations, however, are recognized on a cash basis (e.g., become a "claim" once they are actually received in cash)



Donation of Capital Assets

- Government-wide statement effect only for assets acquired with intention to keep
- For assets for which sale or dissolution has occurred by year-end...revenue recognized
- If intent is to sell *and* sale occurs before statements are issued, reflect an asset (e.g., "assets held for resale") and revenue
- Intent for sale, but not immediate sold – government-wide statement effect only (no revenue)
- Donation of capital asset at acquisition value



Other Types of Revenues - Recognition Issues

- Investment income
 - Interest receivable and associated revenue should be calculated and recorded – exchange transaction
 - Change in fair market value reflected through interest income
 - Realized and unrealized gains and losses may not be shown separately on statement
 - Always shown as revenue, even if negative



Expenditure Recognition

- Generally recognized when liability is measurable and has been incurred
- There are some regular exceptions to the general rule.....



Compensated Absences

- Guidance as per GASB Statement No. 16
- Expenditures for amounts to be liquidated with current financial resources must be due and payable
- Accrued vacation
 - Based on past service/past event
 - Payment must be for amount normally expected to be liquidated with expendable resources – normally expected means for all govts. – no advance funding
 - Valuation based upon current salary levels
 - Salary-related benefits must be included



Compensated Absences (cont.)

- Sick leave
 - Liability normally *not* accrued as most sick plans are based on *future* events
 - Liability is accrued if sick plan, or portion of it, converts to a *past* event basis (e.g., incentive plans with payout provisions) and payout will occur to employee and/or third party
 - Conversion of sick leave to service time for retirement calculation is *not* accrued



Compensated Absences (cont.)

- Liability for accrued vacation and appropriate sick leave has three potential balance sheet effects
 - Full fund liability for governmental funds – would be extremely rare because of GASB Interpretation No. 6
 - Full general long – term liability
 - Combination of fund and general long - term liability



Claims and Judgments

- Liability on balance sheet when incurred
 - Fund liability when to be liquidated with current resources
 - General long – term liability for future liquidations
- Fund expenditure and liability for adjudicated claims



Claims and Judgments (cont.)

- Incurred but not reported (IBNR)
 - Event that has occurred by the fiscal year end
 - Probable that claim will be made
 - Probably that claim will prevail
- IBNRs are often based upon past history
- IBNR liabilities must be reported if material and meet the above-mentioned criteria



Miscellaneous Expenditure Issues

- Net Pension Obligations/OPEB
 - Fund liability and expenditure for portions to be liquidated with current financial resources
 - Most commonly only reported as a general long - term liability
- Early retirement/other incentive offers
 - Recognized when employees accept offer
 - Same rules for either fund or general long - term liability



Miscellaneous Expenditure Issues (cont.)

- Landfill closure and postclosure care costs may be fund liability
- Debt service *generally* recorded as an expenditure when due
- Inventories and prepaids
 - Purchases method - expenditure when purchased
 - Consumption method - expenditure when used
 - Significant inventories, but not prepaids, accounted using the purchases method must be recorded as asset



Lease Accounting

- Private sector guidance applicable (FASB Statement No. 13)
- Includes guidance for both operating and capital leases
- Fiscal funding clauses do not affect capitalization criteria



Lease Accounting (cont.)

- Lessee accounting
 - Present value of minimum lease payments
 - Other financing source (reduced by amount of down payment, if applicable)
 - Expenditure
 - Year of inception only
 - Purpose of “phantom entry”
 - Regular debt service payments accounted for as expenditures – when due



Capital Projects Funds

- Used to account for major capital acquisition of *general government assets*
 - GAAP - capital acquisitions *other than proprietary funds*
- Current financial resources measurement focus
- Modified accrual basis of accounting



Accounting Issues

- Debt issuance
 - Face amount as other financing source
 - Premiums reported as other financing sources
 - Discounts reported as other financing uses
 - Underwriter's fees should be reported as expenditure and other financing source
 - Accrued interest reported as an asset and liability
 - Transaction recorded at closing date
 - Debt – financed capital grants and contributions to proprietary funds – show transaction even if funds not received



Accounting Issues (cont.)

- Bond anticipation notes (BAN's) – also certain commercial paper issuance
 - Normally reported as a fund liability in fund receiving proceeds
 - May qualify for long – term liability treatment if....
 - Refinancing occurs between balance sheet date and audit opinion date, or
 - Irrevocable legal steps have been taken to consummate the refinancing between the balance sheet date and audit opinion date



Debt Service Funds

- Required by GAAP as follows
 - Legally required (e.g., bond order, statutes)
 - Resources are being accumulated to pay *future* debt service
 - Grants restricted for debt service
- Current financial resources measurement focus
- Modified accrual basis of accounting



Expenditure Recognition

- Generally recognized *when due*
- *Option* for early recognition – GASB Interpretation No. 6
 - Payments scheduled early in fiscal year (≤ 30 days)
 - Resources for future payments externally required
 - Available only in debt service funds
 - Resources set aside late in previous fiscal year
 - Option should be consistently applied
 - Related bond principal shown as a fund liability
- Defaults require current principal and interest to be fund liabilities



Current/Advance Refundings

- Advance refundings
 - Legal defeasance
 - In-substance defeasance
- Proceeds of refunding bonds reported as other financing sources – same accounting as other debt issuance
- Use of refunding proceeds to escrow agent reported as an other financing use
- Use of internal source funds to escrow agent reported as an expenditure



Permanent Funds

- Not required by GAAP
 - Only earnings may be used, principal retained
 - Resources used for government programs
 - Endowments, perpetual care funds
- Current financial resources measurement focus
- Modified accrual basis of accounting



Proprietary Funds



Enterprise Funds

- GAAP only specifically *requires* the use of enterprise funds in the following situations
 - Unemployment compensation funds
 - Public entity risk pool
 - Required under the following conditions:
 - Debt secured solely by a pledge of net revenues
 - Laws / regulations require costs to be recovered with fees and charges (e.g., not with taxes)
 - Pricing policies designed to recover all costs
- Generally a fee must be charged to external users



Enterprise Funds (cont.)

- Flow of economic resources measurement focus
- Accrual basis of accounting
- Budgetary considerations
 - Fixed or flexible budgets common, as are NO legally-adopted budgets
 - Budget-to-actual presentation in the individual fund statements and schedules
 - Budgets required in NC



Accounting Issues (cont.)

- Restricted assets
 - Should be reported when restrictions on asset use change the normal understanding of the availability of assets
 - Must be shown in proprietary funds
 - Common sources are customer deposits and revenue bonds (bond covenants)
- Proprietary fund debt
 - Debt is directly related to proprietary fund
 - Debt expected to be repaid by proprietary fund



Accounting Issues (cont.)

- Interest capitalization required for proprietary funds
 - FASB #34 for non-specific borrowings
 - Capitalization period from beginning of construction
 - *Not* offset by interest earnings
 - FASB #62 for specific borrowings
 - Usually associated with tax exempt debt
 - Capitalization period from date of borrowing
 - Offset by interest earnings



Accounting Issues (cont.)

- Arbitrage rebate shown as a fund liability
 - May be reflected as an offset to interest earnings
- Equity reported as net position (same categories as government-wide statements)
 - Net investment in capital assets
 - Restricted net position
 - Unrestricted net position



Accounting Issues (cont.)

- Tap fees, connection fees, etc.
 - Portion of fee that covers cost – exchange transaction – operating revenue as soon as connection occurs
 - Portion of fee in excess of cost – imposed nonexchange transaction – recorded as non-operating revenue or capital contribution as soon as there is an enforceable legal claim



Accounting Issues (cont.)

- Landfill closure/postclosure care costs
 - Required by GASB Statement No. 18
 - Costs of closure/postclosure recognized over useful life of landfill
 - Expense based on landfill capacity used to date
 - Changes in estimates for current and prior periods handled in the current period



Misc. Capital Asset Issues

- All infrastructure assets must be capitalized
- Assets transferred from general government operations reported as capital contributions
- Assets transferred to general government operations reported as a nonoperating expense



Internal Service Funds

- Never required by GAAP
- Used when government wants to identify the full costs of providing a service to other departments
- Accounting/reporting tool to assist in fairly allocating costs
- Government should be predominant participant – otherwise, enterprise fund



Internal Service Funds (cont.)

- Flow of economic resources measurement focus
- Accrual basis of accounting
- Budgetary considerations
 - Financial plans are common
 - If budget is adopted, budget-to-actual information in individual fund section of CAFR



Internal Service Fund Issues

- Duplication of expenses
 - No consolidations in funds
 - The apparent “duplication” is offset by revenues
 - Should not affect management analysis
 - Consolidations in government – wide statements
- Surpluses/deficits
 - Goal should be to “break even” in the long run
 - Accumulating resources for future capital needs acceptable



Risk Financing Issues

- GASB Statement No. 10 encourages the use of an internal service fund for self-insured risk financing activities
- “Premiums” accounted for as interfund services provided (e.g., revenue) – would include amounts for reserves for catastrophic losses or systematic method to match revenues and expenses
- Amounts above the premium considered a transfer



Fiduciary Funds



Fiduciary Funds

- Pension trust funds
 - Defined benefit / contribution / other plans
- Investment trust funds
 - External pools as per GASB Statement No. 31
- Private purpose trust funds
 - Trusts that benefit individuals / other organizations
- Agency funds
 - Pure custodial capacity



Fiduciary Fund Accounting Issues

- Funds held in a trustee or agency capacity – e.g.,
 - Government performs investment function
 - Government has significant administrative responsibilities
- Usually all trust funds are evidenced by a legal trust agreement



Fiduciary Fund Accounting Issues (cont.)

- All trust funds use economic resources measurement focus
- All trust funds and the agency funds use the accrual basis of accounting
- Assets less liabilities equals net position
- Two statements required
 - Statement of net position
 - Statement of changes in net position



Pension (And Other Employee Benefit) Trust Fund

- Used when government sponsors a plan for its employees and acts as its trustee
- Most deferred compensation plans do not fall into this category
 - Most governments do not “hold” assets
 - Usually not shown in a fiduciary fund
- Additions and deductions reported rather than revenues and expenses



Definition of a Pension Plan

- Trust or other fund used to accumulate and manage assets for payment of pension benefits when they become due
- Qualified trust has the following characteristics:
 - Contributions to the plan by employer governments or other entities and earnings are irrevocable
 - Sole purpose of assets in the plan – provide pensions under the benefit terms
 - Assets in plan protected from creditors of employer governments, administrator, contributors, plan members



GASB Statement No. 68 – Accounting and Financial Reporting for Pensions

- An amendment of GASB Statement No. 27 (employers) and GASB Statement No. 50 (Pension Disclosures)
- Covers pension plans administered as trusts or equivalent arrangements
- Covers accounting and reporting requirements for pensions for state and local government employers
- Covers defined benefit and defined contribution pension plans
- Doesn't have any effect on plan funding or General Fund fund balance



Pension Benefit Relationships

- Employer primarily responsible for unfunded obligations
- Net Pension Liability = Total Pension Liability – Pension Plan's Fiduciary Net Position – employer reports as a financial statement liability or asset
- Multi-employer plans – each employer recognizes its own pro rata share of the plan liability or asset



Measuring Total Pension Liability

- 3 steps:
 - Project benefit payments
 - Discount projected benefit payments to actuarial present value (PV)
 - Attribute PV (total pension liability) to past, present, and future years



Private Purpose Trust

- Absence of public purpose
- May not support government's own programs
- Example: scholarship funds



Investment Trust Funds

- Required by GASB Statement No. 31 for *external* investment pools
- Does not apply to one government collecting taxes for other governments



Agency Fund

- Required when assets are being held in a strict custodial capacity
 - Common for tax collecting arrangements
 - Special assessment debt with no governmental commitment
 - May not be used for internal balances in external financial reports



Agency Fund (cont.)

- No measurement focus
 - Assets
 - Liabilities
 - No equity
- Statement of changes in assets and liabilities required in the combining and individual fund section of the CAFR



Converting Governmental Funds to Governmental Activities



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Three Basic Steps of Conversion

- Convert measurement focus and basis of accounting
- Internal service funds that primarily serve governmental funds incorporated to governmental activities
- Interfund balances and activities are eliminated



Format of Conversion Worksheet

<u>Trial Balance</u>	<u>Conversions</u>	<u>Adjusted</u>
----------------------	--------------------	-----------------

Account captions and preclosing trial balance
(beginning balances for permanent accounts)

Conversion entries

Converted balances for government-wide financial statements



Worksheet Event

Beginning Trial Balance

- Assets, liabilities, fund balances
- Revenues, expenditures, other financing sources/uses
- BEGINNING balances of general capital assets (including accumulated depreciation) and general long-term liabilities



Clarifications on adjustments

- All equity adjustments can be run through *fund balance* account
- No separate accounts need be established to distinguish *expenses* from *expenditures*
 - Adjusted *expenditure* accounts represent *expenses* and can simply be referred to accordingly



Measurement Focus/Basis of Accounting Conversions

- Capital outlays
- Debt service principal payments
- Other financing sources/uses related to debt
- Donations of capital assets
- Sales of capital assets
- Eliminate revenues related to prior periods
- Eliminate expenditures of prior periods



Conversions (cont.)

- Earned but unavailable revenues
- Expenditures not normally liquidated with current financial resources
- Depreciation expense
- Amortization



Capital Outlays

- Reclass capital outlay expenditures to the acquisition of a capital asset

Capital Assets	XX,XXX
Expenditures - by function	XX,XXX



Debt Service Principal Payments

- Reclass debt service *principal* expenditures as reduction of long-term debt liability

Long-term debt liability	XX,XXX
Debt principal expenditures.	XX,XXX

(Applies to bonded debt, capital leases, etc.)



Eliminate OFS/OFU Related to Debt Issuances

- Issuance of debt a statement of net position event rather than the statement of activities

OFS - debt proceeds	XX,XXX
Debt liability	XX,XXX



Debt Issuances

- Capital lease events are statement of net position transactions

OFS - capital leases	XX,XXX
Capital lease liability	XX,XXX



Debt Issuances

- Refundings affect the stmt. of net position

Deferred charges	XX
Outstanding liability	X,XXX
OFS - refundings	XX,XXX
Refunding debt liability	XX,XXX
OFU - escrow payment	X,XXX



Donations of Capital Assets

- Capital assets *donated* to governmental activities must be reflected on *both* the statement of net position and statement of activities

Capital assets	XX,XXX
General revenues - other	XX,XXX



Sales of Capital Assets

- Sales of capital assets must be reported, including related gains or losses

Accumulated depr.	X,XXX
OFS - assets sales	XX
Loss on sales	XX
Capital assets	XX,XXX



Asset Trades

- Asset purchases that include trade-ins also must be reported

Capital assets	X,XXX
Accum. Depr.	X,XXX
Loss on trade-in	XX
Capital assets	X,XXX
Expenditures	X,XXX



Scrapping of Capital Assets

- Scrapping of assets, even those fully depreciated, must be reported (may include losses)

Accumulated Depr.	XX,XXX
Capital Assets	XX,XXX



Revenues Related to Prior Periods

- Statement of activities is not subject to the availability criterion

Deferred revenue	X,XXX
Revenues - taxes	XX,XXX
Fund Balance	XX,XXX
(Assume recognition in prior period.....)	



Earned but Unavailable Revenue

- Revenues should be recognized when earned, not only when available, in the current year

Deferred inflows	XX,XXX
Revenues - various	XX,XXX



Expenditures Related to Prior Periods

- Expenditures on a full accrual basis should be recognized when *incurred*

Accrued interest (PY)	XXX
Comp. Absences	X,XXX
Expenditures - by function	X,XXX
Interest expenditures	XXX



Expenditures not Liquidated with Current Financial Resources

- Expenditures should be accrued when incurred, not simply when liquidated, in the statement on net assets

Expenditures	X,XXX	
Interest expenditures	XXX	
Accrued interest (CY)		XXX
Compensated absences	X,XXX	



Depreciation Expense

- Depreciation expense must be reported in the statement of activities

Expenditures - by function	X,XXX	
Accumulated depr. (by asset)	X,XXX	



Various Amortizations

- Premiums, discounts, deferred charges, etc. must be appropriately amortized

Expenditures - various	XX	
Deferred charges	XX	
Discounts	XX	



Incorporate Assets/Liabilities of Internal Service Funds

- Residual balances of the ISFs should be closed to *either* the governmental activities or the business-type activities column
 - Based on predominate user
 - Most often will be the governmental activities column



Incorporate Assets/Liabilities

Cash	X,XXX
Investments	X,XXX
Receivables	X,XXX
Capital assets	XX,XXX
Liabilities	X,XXX
Accum. Depr.	X,XXX
Net position	XX,XXX



Incorporate *External* Profits/Losses of ISFs

- Revenues/expenses related to *external* parties need to be reported appropriately on the statement of activities

Fund Balance	XX
Expenditures	XXX
Revenues - charges for services	XXX
Revenues - interest	XX



Elimination of *Internal* Profit/Loss of ISFs

- “Lookback” - internal profit/loss allocated back to functions/departments that participate (*both* governmental and business-type activities affected) in the statement of activities

Fund Balance	XXX
Due to other funds	XX
Expenditures - by function	XXX



Additional Eliminations

- Transfers between governmental funds
 - Operating
 - Due to's/due from's
- Transfers between governmental funds and internal service funds
 - Asset transfers



Clean-up

- Convert all terminology to reflect the new measurement focus and basis of accounting
 - OFS/OFU have been replaced
 - *Expenses* should replace all *expenditure* line items
 - Identify program revenues
 - *Fund balance* should be replaced with *net position* terminology
 - Breakdown of net position is a separate calculation



Identify program revenues and categorize net assets

- Identify *program revenues* on statement of activities
- Categorize *net position -- governmental activities* on statement of net position
 - Net investment in capital assets
 - Restricted net position
 - Unrestricted net position



Balances in governmental funds

- No conversion adjustment is ever posted to a ledger account for a fund
 - Ending balances also serve as beginning balances for the subsequent period



The Financial Reporting Entity



Component Units

- Primary government versus component units
- Component units, by definition, must be legally separate
- Blending versus discrete presentation
- GASB Statement Nos. 14 and 61 provide accounting and financial reporting guidance



Imposition of Will - PG has ability to....

- Remove appointed board members at will
- Approve/modify budget
- Approve/require changes affecting revenues
- Veto/override/modify governing board decisions



Imposition of Will - PG has ability to....(cont.)

- Appoint/hire/reassign/dismiss management
- Take other actions to impose will



Financial Benefit Financial Burden

- Accessing resources without dissolution
- Obligated to finance deficits or provide support
- Obligated in some manner for the debt of the potential component unit



Financial Reporting

- Blending
- Discrete presentation
- Note disclosure



Blending

- Required if....
 - Boards are substantially the same and there is financial benefit/burden relationship or PG has operational responsibility of CU
 - CU provides services almost exclusively to PG or provides benefits almost exclusively to PG
 - CU's debt is expected to be entirely or almost entirely by resources of the PG



Discrete Presentation

- Required for CU's that cannot be blended
- Shown in columns to the right of the PG
- BFS reporting requirements
 - Must show major CU's in BFS
 - CU's as individual columns in BFS
 - Columns with combining statements



Government-wide Statements



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Government-wide Statements - Highlights

- Categories: Governmental, Business-type, Total PG, Component Units
- Exclude Fiduciary Funds, Fiduciary CU's
- Focus On PG - No CU & PG Consolidation
- Optional Total For Reporting Entity
- Optional - Prior Year Data
- Economic Resources, Accrual MFBA



Statement Of Net Position

Government-wide Statements



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Statement Of Net Position

- Includes All Assets And Liabilities
- Net Position Format Preferred
- Balance Sheet Format Optional
- Assets & Liabilities Reported In Order Of Relative Liquidity - Class Averages
- Option - Classified Statement
- Current & Noncurrent Distinction



General Capital Assets

- Includes tangible and intangible assets – infrastructure required
- Asset valuations
 - Historical cost (*all* costs incurred in readying asset for use)
 - Estimated historical cost
 - Acquisition value for donations
 - Present value of net minimum lease payments for assets under capital lease
- Capitalized interest not allowed – GASB Statement No. 37



General Capital Assets (cont.)

- Details by asset class reported either on the statement of net assets or in the note disclosures
 - Land
 - Buildings
 - Equipment
 - Improvements
 - Intangibles (example - computer software)
 - Construction in progress
- Must separate depreciable and non-depreciable capital assets (if significant)



General Capital Assets (cont.)

- Accumulated depreciation reported on face of statement or in notes – more detail reported
- Capitalization threshold guidance
- Useful life guidance
- Calculating depreciation
 - Class of asset
 - Network
 - Subsystem
 - Individual asset



General Capital Assets (cont.)

- Calculating depreciation – acceptable methods
 - Straight – line
 - Sum – of – the – year's – digits
 - Declining balance
 - Units of production
 - Increasing charge methods
 - Composite or grouping



General Capital Assets (cont.)

- MD&A disclosures required
- Various disclosures required in the notes
- Various schedules are no longer included in the CAFR



Statement Of Net Position - Liabilities

- Amounts Due Within 1 Year Captioned Separately For Long-term Liabilities If Liabilities Shown In Order Of Due Date
- Shown In Order Of Due Date Or Current / Noncurrent
- Compensated Absences - Estimate Based On Flow Assumptions And Experience



General Long – term Liabilities

- Long-term debt shown as a liability until due
- Common general long - term liabilities
 - Bonds payable
 - Claims and judgments
 - Compensated absences
 - Unfunded net pension liability
 - Unfunded net OPEB obligation
 - Closure and postclosure care costs



General Long – term Liabilities (cont.)

- Rebutable arbitrage
 - Fund liability if due and payable
 - General long – term liability if not due and payable
- Net pension liability
- Changes in pension and benefit accounting



General Long – term Liabilities (cont.)

- Interfund loans should not be shown as general long - term liabilities – fund liability
- Bond anticipation notes (BANs) and commercial paper
 - Usually a fund liability
 - Government-wide liability if...
 - Refinancing occurs between fiscal year end and audit opinion date
 - Irrevocable legal steps taken to refinance during this same period



General Long – term Liabilities (cont.)

- Special assessment debt
 - Governmental commitment... shown as general long – term liability with special caption
 - Backed with taxing power... shown as any other GO debt
 - No commitment... not a general long – term liability
- Note disclosures



Classification Of Net Position

- Net investment in capital assets
- Restricted net position
- Unrestricted net position



Statement of Activities

Government-wide Financial
Statements



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Overview of Statement of Activities

- Uses same measurement focus and basis of accounting for governmental and proprietary funds
 - Total economic resources
 - Accrual basis
- Reports *net (expense) revenue* of functions
- Reports all general and non-allocable resources



Overview (cont.)

- Primary government
 - Governmental activities
 - Business-type activities
 - Financed in whole or in part with external fees
- Component units
- Fiduciary activities NOT reported
- Eliminations and reclassifications included
- Reconciles change in net assets



Depreciation

- Three reporting formats
 - Direct functional expenses
 - Ratably allocated across appropriate functions
 - How many functions share the asset?
 - Separate line item or as "general government"
- Infrastructure
 - Direct functional expense
 - Separate line item



Interest Expense

- *Generally* considered an indirect, unallocable expense
 - Financing vs. costs
- Interest on capital leases are *not* direct expenses of function leasing the asset
- Borrowing *essential* to function
 - Direct in this case (VERY limited)
- Clarify if there is direct interest



Revenues - Overview

- Program revenues reported by function
 - Charges for services
 - Operating grants and contributions
 - Capital grants and contributions
- General revenues
 - All other revenues that are not required to be reported as program revenues



Grants and Contributions

- Capital vs. operating
- Capital grants/contributions are usually fairly obvious
- Operating distinctions are more vague
 - How much is restricted?
 - To which programs is the funding restricted?
 - Is it a reimbursement?



General Revenues

- All revenues *not* required to be reported as program revenues
 - Taxes
 - Interest
 - Unrestricted grants and contributions
 - Transfers
 - Miscellaneous



Taxes

- Taxes levied or imposed by the *reporting* government
- Generally, taxes are not *derived* from a program or function
- Estimated uncollectible taxes should be reported as a reduction of revenue
- **BASICALLY ALL TAXES ARE REPORTED AS GENERAL REVENUE**



Required Financial Reporting

- Basic Financial Statements
 - Government-wide
 - Fund financial
 - Note disclosures
- Required supplementary information
 - MD&A
 - Certain trend data



CAFRs versus BFS

- Comprehensive annual financial reports never required
- CAFR sections
 - Introductory
 - Financial
 - Statistical
- Requirements on CAFR statistical section



A Stroll Through the Financial Statements



ENOUGH!!