Fund Accounting Principles and Practices

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Our Very Ambitious Agenda

• Overview of governmental GAAP
  – Fund accounting structure
  – Classification and terminology
  – Government-wide accounting and financial reporting requirements “Walk-through” the financial statements (now there is something to live for!)
  – Common reporting problems
GAAP and the Governmental Environment

GAAP Hierarchy

GASB Statement No. 76
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
- Note: Changes coming in GASB Statement No. 84, *Fiduciary Activities*
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*
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 inflows of resources)
  - 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 immediately sold – government-wide statement effect only (no revenue)
• Donation of capital asset at acquisition value (GASB Statement No. 72)
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 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 has occurred by the fiscal year end
  – Probable that claim will be made
  – Probable 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
- Will be changed by GASB Statement No. 87, *Leases*
- LGC does NOT want early implementation of GASB Statement No. 87
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

GASB Statement No. 87

Leases
Scope and Approach

- “A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”

- All leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for all leases with a few exceptions
  - Lessee recognizes a liability and a capital asset
  - Lessor recognizes a receivable and a deferred inflow of resources

- Statement does not apply to leases for intangible assets (computer software), biological assets, service concession arrangements, supply contracts

Lease Term

- Period during which a lessee has a noncancelable right to use an underlying asset

- Fiscal funding/cancellation clauses should not affect the lease term unless it is reasonably certain that it is going to be exercised

- A short term lease has a maximum ORIGINAL term of one year; lessees and lessors reflect outflows and inflows of resources, respectively
Initial Reporting - Lessee

- Recognize lease liability
  - PV of payments expected to be made in lease term

- Recognize capital asset
  - Sum of lease liability adjusted for lease payments at or before the lease started and initial direct costs necessary to place asset into service

Initial Reporting - Lessor

- Recognize lease receivable
  - PV of payments received over lease term

- Recognize deferred inflow of resources

- Lessor should not derecognize asset underlying the lease
  - Accounting for depreciation and impairments continue
  - If asset must be returned in original condition, do not depreciate
Subsequent Reporting - Lessee

- Lease asset amortized in a systematic and rational manner
  - Shorter of lease term or underlying life of asset
  - If lease contains purchase option that lessee is reasonably certain to exercise, amortize over useful life of asset
  - For non-depreciable assets, no lease amortization
- Lease amortization reported as an outflow of resources — expense
- Discount on present value is amortized in a systematic way as an outflow of resources (interest expense)

Subsequent Reporting - Lessor

- Discount on receivable amortized as interest revenue at a constant periodic rate of return
- Recognize inflows of resources (revenues) over lease term in a systematic and rational manner
Other Items

• Governmental Fund accounting – no real change from current GAAP

• Implementation for periods beginning after 12/15/18
  – FYE 6/30/20

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
  – 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 – no longer authorized under federal tax law – no new 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
- Additional disclosures required if debt extinguished using only internal resources – GASB Statement No. 86, Certain Debt Extinguishment Issues

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 no longer allowed for proprietary funds
  – Implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
  IMMEDIATELY
  – Effective on implementation
  – Handled prospectively
  – Do not restate prior projects!

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 – Changes with GASB Statement No. 84 – Fiduciary Activities

• 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 / OPEB Plan

- Trust or other fund used to accumulate and manage assets for payment of pension / OPEB 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 / OPEB under the benefit terms
  - Assets in plan protected from creditors of employer governments, administrator, contributors, plan members

Pension / OPEB Benefit Relationships

- Employer primarily responsible for unfunded obligations
- Net Pension / OPEB Liability = Total Pension / OPEB Liability – Pension / OPEB 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 / OPEB Liability

- 3 steps:
  - Project benefit payments
  - Discount projected benefit payments to actuarial present value (PV)
  - Attribute PV (total pension / OPEB 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

GASB Statement No. 84
Fiduciary Fund Reporting

• Fiduciary fund types for *legally entrusted* arrangements
  – Pension (and other employee benefit) trust funds
    • Pension plans
    • OPEB trust
  – Investment trust funds – external investment pools
  – Private-purpose trust funds
    • Legally entrusted assets that are *not* pension or OPEB assets
    • Government named as trustee but *not* the beneficiary
    • May be expendable or nonexpendable in nature

Fiduciary Fund Reporting (cont.)

• Fiduciary fund type for such activities *not legally entrusted*
  – Custodial funds
    • Such funds may have equity
Fiduciary Financial Statements

• Statement of Fiduciary Net Position

• Statement of Changes in Fiduciary Net Position

Implementation Date

• Fiscal years that begin after December 15, 2018

• i.e., FYE 6/30/20
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

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

• 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 Statements No. 37 and 89

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.)

• Rebatable 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

www.sog.unc.edu
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
• Interest should NOT be capitalized after the implementation of GASB Statement No. 89
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!!