# Accounting Academy
# Day 2

Government Finance Officers Association

August 29, 2018

# Governmental Fund Expenditures

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# Background

- Accrual basis
  - Expense = When liability incurred
- Dilemma
  - Governmental funds focus on near-term liquidity
    - Unaffected by liabilities not payable in the near-term
- Resolution
  - *Modified* accrual
    - Expenditure = When a liability normally would be liquidated with current financial resources
      - "Normally" = Practice of government <u>in general</u>

# Contrast

- Vacation leave
  - Expense (accrual) = When earned
  - Expenditure (modified accrual) = When paid

# Basic Rule – Modified Accrual

- Expenditure = When liability incurred
  - Same as accrual basis
  - Examples: salaries and vendor payables
- Exceptions
  - Debt service
  - Certain specified accrued liabilities
  - Postemployment benefits
  - Operating leases with scheduled rent increases
  - Inventories of supplies
  - Prepaids

# Exception for Debt Service

- Expenditure = When payment is due (that is, the period in which payment normally would be budgeted)
  - No accrual of interest at year-end
- Early recognition option
  - Purpose = Avoid transitory surplus in debt service fund
  - Three criteria for use
    1. Use of debt service fund
    2. Transfer *required* prior to end of fiscal year
    3. Payment due early in subsequent year (one month)

# Example: Debt Service Expenditure Recognition

- Assumptions
  - June 30 fiscal year-end
  - Requirement to transfer $650,000 to debt service fund by end of fiscal year
  - Payment due July 1

# Transfer to Debt Service Fund

- Always the same

| | DR | CR |
|---|---|---|
| *General fund:* | | |
| Transfer out | $650,000 | |
| Cash | | $650,000 |
| (Transfer of resources to debt service fund for July 1 debt service payment) | | |

| | DR | CR |
|---|---|---|
| *Debt service fund:* | | |
| Cash | $650,000 | |
| Transfer in | | $650,000 |
| (Transfer of resources from general fund for July 1 debt service payment) | | |

# Subsequent Journal Entries Normal Approach

- Single journal entry on payment date

| | DR | CR |
|---|---|---|
| *Debt service fund:* | | |
| Expenditures – debt service – principal | $600,000 | |
| Expenditures – debt service – interest | 50,000 | |
| Cash | | $650,000 |
| (Recognition of July 1 debt service principal and interest payment) | | |

# Subsequent Journal Entries Early Recognition Option

- Additional journal entry at year-end

| | DR | CR |
|---|---|---|
| *Debt service fund:* | | |
| Expenditures – debt service – principal | $600,000 | |
| Expenditures – debt service – interest | 50,000 | |
| Bonds payable | | $600,000 |
| Interest payable | | 50,000 |
| (Recognition of July 1 debt service principal and interest payment) | | |

- Entry on payment date

| | DR | CR |
|---|---|---|
| *Debt service fund:* | | |
| Bonds payable | $600,000 | |
| Interest payable | 50,000 | |
| Cash | | $650,000 |
| (Recognition of July 1 debt service principal and interest payment) | | |

# Net Effect of Fund Balance at Year-end

- Normal approach
  - Transfer in + $650,000
  - Net effect on fund balance + $650,000
- Early recognition option
  - Transfer in +$650,000
  - Debt service expenditure - $650,000
  - Net effect on fund balance $ 0

# Exception for Certain Specified Accrued Liabilities

- Expenditure when normally liquidated with current financial resources
  - The period in which payment normally is budgeted
- Practical application
  - Amounts payable to former employees
    - Compensated absences
  - When due and payable
    - Claims and judgments
    - Termination benefits
  - When goods and services are received
    - Landfill closure and postclosure care costs
    - Pollution remediation obligations

# Exception for Pensions and OPEB

- Employers in single-employer, agent multiple-employer, and cost-sharing multiple-employer defined benefit plans
  - Expenditure = Amounts paid by the employer during the period, and change in amounts due and payable at beginning/end of period

# Exception for Operating Leases with Scheduled Rent Increases

- Accrual accounting
  - Expense as anticipated

- Expenditure = Only when payment is due

# Exception for Purchases of Supplies

- Two options
  - Purchases method
  - Consumption method

# Inventory of Supplies – Purchases Method

- Expenditure upon purchase

| | DR | CR |
|---|---|---|
| Expenditures – supplies | $100,000 | |
| Cash | | $100,000 |
| (Purchase of supplies inventory) | | |

- Material amounts must still be reported at year-end
  - Direct adjustments to fund balance

| | DR | CR |
|---|---|---|
| Inventories – supplies | $25,000 | |
| Fund balance – nonspendable | | $25,000 |
| (To adjust fund balance for changes in supplies inventories) | | |

# Inventory of Supplies – Consumption Method

- Consumption method (like private sector)
  - Initially recognize asset

| | DR | CR |
|---|---|---|
| Inventories – supplies | $100,000 | |
| Cash | | $100,000 |
| (Purchase of supplies inventory) | | |

- Expenditure when consumed

| | DR | CR |
|---|---|---|
| Expenditures – supplies | $75,000 | |
| Inventories - supplies | | $75,000 |
| (To recognize supplies used during the period) | | |

# Exception for Prepaids

- Two options
  - Purchases method
    - No requirement to report an asset for significant balances
    - Contrast with purchases method for supplies inventories
  - Consumption method
    - Expenditure in period that services provided

# Question 1

When is an *expense* recognized under the *accrual basis* of accounting?

A. When related liability incurred
B. Either when: 1) related liability incurred or, 2) related liability incurred and liquidation normally expected to be made using current financial resources
C. When payment is due
D. When payment is made

# Question 2

When is an *expenditure* recognized under the *modified accrual basis* of accounting?

A. When related liability incurred
B. Either when: 1) related liability incurred or, 2) related liability incurred and liquidation normally expected to be made using current financial resources
C. When payment is due
D. When payment is made

# Question 3

Which of the following would always be recognized as an expenditure at the time liabilities are incurred under the modified accrual basis of accounting?

A. Salaries
B. Professional services
C. Utilities
D. All of the above
E. None of the above

# Question 4

A government is *required* to transfer resources to a debt service fund for the payment of principal ($10,000) and interest ($5,000) due the first day of the following fiscal year.

How much *must* be recognized as the debt service expenditure of the current period in the debt service fund?

A. $15,000
B. $10,000
C. $5,000
D. $0

# Question 5

A government *elects* to transfer resources to a debt service fund for payment of principal ($10,000) and interest ($5,000) due the first day of the following fiscal year.

How much may be recognized as a debt service expenditure of the current period in the debt service fund?

A. $15,000
B. $10,000
C. $5000
D. $0

# Question 6

Which of the following should be recognized as a liability and expenditure in a governmental fund only when due and payable?

A. Claims and judgments
B. Termination benefits
C. Vendor payables
D. All of the above
E. Both A and B

# Question 7

A government that participates in a cost-sharing pension plan is regularly asked to make its fourth-quarter contribution in the first quarter of the subsequent fiscal year. When should an expenditure related to the contribution be recognized in a governmental fund?

A. Current year

B. Subsequent year

C. Either A or B

# Question 8

In which of the following situations would an asset never have to be recognized on the governmental fund balance sheet?

A. Supplies inventory – purchases method
B. Supplies inventory – consumption method
C. Prepaids – purchases method
D. Prepaids – consumption method
E. Both A and C
F. None of the above

# Other Financing Sources and Uses

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# Nature and Purpose

- Some items that increase/decrease fund balance clearly differ from regular revenues and expenditures
  - Transfers among funds
  - Receipt of proceeds of long-term debt
- Thus:
  - Revenue + *other financing sources*
  - Expenditures + *other financing uses*
- Only items specified by GASB qualify

# Other Financing Sources

1. Issuance of long-term debt
2. Inception of a capital lease
3. Sales of capital assets
4. Insurance recoveries
5. Transfers

# 1. Issuance of Long-term Debt

- Both face value and premium
  - Report separately
- Discounts
  - Underwriter's discount = expenditure
  - Original issue discount = other financing use

| | DR | CR |
|---|---|---|
| Cash | $97 | |
| Expenditure – bond issuance costs | 2 | |
| Other financing use – original issue discount | 1 | |
| Other financing source – debt issuance | | $100 |
| (To report the issuance of long-term debt) | | |

# Clarification

- No-commitment special assessment debt
  - Not debt from the perspective of the government
    - “Grant” from property owners = revenue
- Borrowings within the primary government
  - Report fund liability vs. other financing source

# 2. Inception of Capital Lease

- Basic journal entry when debt is used to finance the purchase of a capital asset

| | DR | CR |
|---|---|---|
| Cash | $500 | |
| Other financing source – notes payable | | $500 |
| (To report the issuance of notes to finance the acquisition of a fire truck) | | |

| | DR | CR |
|---|---|---|
| Expenditures – capital outlay – fire protection | $500 | |
| Cash | | $500 |
| (To report the purchase of a fire truck) | | |

# Net Result

- One inflow/two outflows

| | Inflows | | Outflows | | Net |
|---|---|---|---|---|---|
| Issuance of debt (other financing source) | $500 | | | | $500 |
| Purchase/acquisition of | | | | | |
| asset (expenditure) | | | ($500) | | (500) |
| Repayment of principal of | | | | | |
| debt (expenditure) | | | (500) | | (500) |
| | $500 | | ($1,000) | | ($500) |

# Inflows and Outflows for Capital Leases

- No inflows/one outflow

| | Inflows | | Outflows | | Net |
|---|---|---|---|---|---|
| Cash received by borrower | $0 | | | | $0 |
| Cash paid to acquire asset | | | ($0) | | (0) |
| Principal portion of lease payments (expenditure) | | | (500) | | (500) |
| | $0 | | ($500) | | ($500) |

# Additional Journal Entry Needed

- Surrogate for inflow from borrowing and outflow for capital outlay

| | Debit | | Credit |
|---|---|---|---|
| Expenditures - capital outlay - fire protection | $500 | | |
| Other financing source - lease | | | $500 |
| (To report the inception of a capital lease to | | | |
| acquire a fire truck) | | | |

# Result of Additional Journal Entry

- One inflow/two outflows (like regular debt)

| | Inflows | | Outflows | | Net |
|---|---|---|---|---|---|
| Other financing source - capital lease | $500 | | | | $500 |
| Acquisition of leased asset - expenditure | | | ($500) | | (500) |
| Repayment of principal of debt - expenditure | | | (500) | | (500) |
| | $500 | | ($1,000) | | ($500) |

# 3. Sale of Capital Assets

- Conceptually *other financing source*
- Practical exceptions
  - Immaterial amounts reported as *other revenue*
  - May qualify as special item

# 4. Insurance Recoveries

- Really involuntary conversions = Sales of capital assets
  - May qualify as extraordinary item
    - Not a special item because not subject to management's control
- FEMA payments are <u>not</u> insurance recoveries
  - Form of assistance = Revenue

# 5. Transfers

- Including certain interfund “loans”
  - If repayment not expected within a reasonable time

# Other Financing Uses

1. Original issue discount on debt
2. Payments to advance refunding escrow agent
3. Transfers

# 1. Original Issue Discount on Debt

- Really an adjustment to the related inflow rather than an outflow
  - Contrast with underwriter's discount (expenditure)
    - Involves actual payment

# 2. Payments to Advance Refunding Escrow Agent

- Distinguished from regular debt service

*(Advance refunding essentially eliminated by the Tax Cuts and Jobs Act of 2017 – makes the interest on advance refunding bonds taxable)*

# 3. Transfers

- Including certain interfund “loans”
  - If repayment not expected within a reasonable time

# Question 1

How is the determination made whether to report a given item as an *other financing source/use* rather than as a *revenue/expenditure*?

A. The item meets the definition of an *other financing source/use*
B. Professional judgment
C. Specific items qualify as *other financing sources/uses* only if they have been identified as such in the authoritative accounting literature

# Question 2

A government issues bonds with a face value of $1 million and receive $1,010,000 in proceeds. How does the governmental fund that receives the proceeds report the credit(s) resulting from the transaction?

A. OFS – debt issuance $1,010,000

B. OFS – debt issuance $1,000,000/OFS – debt issuance premium $10,000

C. Liability – bonds payable $1,000,000/debt issuance premium $10,000

# Question 3

Which of the following statements is true:

A. Cash flows resulting from a debt-financed capital acquisition are the same as cash flows resulting from a lease-financed capital acquisition

B. Journal entries for a lease-financed capital acquisition closely parallel journal entries for a debt-financed capital acquisition.

C. Both A and B

D. Neither A nor B

# Question 4

How should a governmental fund report the receipt of insurance proceeds following a natural disaster?

A. Revenue

B. Other financing source

C. Special item

# Question 5

How should a governmental fund report the receipt of resources from the Federal Emergency Management Agency (FEMA) following a natural disaster?

A. Revenue

B. Other financing source

C. Special item

# Question 6

How should payments made by a governmental fund to an escrow agent in connection with an advance refunding be classified?

A. Expenditures

B. Reduction of related debt

C. Other financing uses

D. Either A or B

# Governmental Fund Financial Statements

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# Basic Financial Statements

- Balance sheet
- Statement of revenues, expenditures, and changes in fund balances

# Focus of Reporting

- Major funds
  - Separate column for each
- Nonmajor funds
  - In the aggregate as a single column
    - If there is only one nonmajor governmental fund, that column should be labeled accordingly

| Major Funds | | | Nonmajor Fund | |
|---|---|---|---|---|
| General Fund | Special Revenue Fund 1 | Special Revenue Fund 2 | Special Revenue Fund 3 | Total |

# Audit Implications

- Each major fund constitutes an “opinion unit”
  - Point of reference for materiality in the financial statement audit

# Identifying Major Funds

- General fund always a major fund
- Criteria for other governmental funds
  - Relative size
  - Qualitative factors

# Classification as a Major Fund Based on Relative Size

- Proportionate share of
  - Assets + deferred outflows of resources
  - Liabilities + deferred inflows of resources
  - Revenues
  - Expenditures
- Points of reference
  - Governmental funds in total
  - Total for governmental funds + enterprise funds

# Criteria for Evaluation Based on Relative Size

- For a given category
  - Assets + deferred outflows of resources
  - Liabilities + deferred inflows of resources
  - Revenue
  - Expenditures
- At least 10 percent of the total for governmental funds, *and*
- At least 5 percent of the combined total for governmental funds + enterprise funds

# Governmental Funds

| Financial Statement Element | % of total for governmental funds | % of total for governmental + enterprise funds |
|---|---|---|
| Assets + deferred outflows of resources | ≥ 10% | ≥ 5% |
| Liabilities + deferred inflows of resources | ≥ 10% | ≥ 5% |
| Revenues | ≥ 10% | ≥ 5% |
| Expenditures/expenses | ≥ 10% | ≥ 5% |

# Four-step Process

1. Calculate 10 percent of a given category for governmental funds in total
   - $500 governmental funds in total x 10% = $50
2. Calculate 5 percent of that same category for governmental funds + proprietary funds
   - $4,000 governmental funds + enterprise funds x 5% = $200

# Four-step Process (cont.)

3. Select the higher amount as the threshold for classification as a major fund
   - $200 > $50 = $200
4. Determine whether the amount of the financial statement element reported in the individual governmental fund ($210) exceeds that threshold
   - $210 reported > $200 threshold = major fund

# Clarification

- Exclude from calculation
  - Other financing sources and uses
  - Extraordinary items

# Example: Assumptions

| | Assets + Deferred outflows | Liabilities + Deferred inflows | Revenues | Expenditures/ expenses |
|---|---|---|---|---|
| General fund | $6,900 | $1,900 | $37,300 | $31,200 |
| Governmental fund A | $5,800 | $4,200 | $2,400 | $5,000 |
| Governmental fund B | $6,800 | $1,300 | $3,200 | $5,900 |
| Governmental fund C | $3,000 | $700 | $3,800 | $2,100 |
| Total governmental funds | $22,500 | $8,100 | $46,700 | $44,200 |
| Enterprise fund | $162,300 | $72,100 | $16,200 | $3,800 |
| Total governmental + enterprise funds | $184,800 | $80,200 | $62,900 | $48,000 |

# Assets + Deferred Outflows of Resources

Governmental funds:

$22,500 x 10% = $2,250

Governmental funds + enterprise fund:

$184,800 x 5% = $9,240

Threshold:

$9,240 > $2,250 = $9,240

# Liabilities + Deferred Inflows of Resources

Governmental funds:

$8,100 x 10% = $810

Governmental funds + enterprise fund:

$80,200 x 5% = $4,010

Threshold:

$4,010 > $810 = $4,010

# Revenues

Governmental funds:

$46,700 x 10% = $4,670

Governmental funds + enterprise fund:

$62,900 x 5% = $3,145

Threshold:

$4,670 > $3,145 = $4,670

# Expenditures/expenses

Governmental funds:

$44,200 x 10% = $4,420

Governmental funds + enterprise fund:

$48,000 x 5% = $2,400

Threshold:

$4,420 > $2,400 = $4,420

# Application of Threshold

| | Fund total | Threshold | >Threshold? | Major fund? |
|---|---|---|---|---|
| **Fund A** | | | | |
| Assets + deferred outflows of resources | $5,800 | $9,240 | No | Yes |
| Liabilities + deferred inflows of resources | $4,200 | $4,010 | Yes | |
| Revenues | $2,400 | $4,670 | No | |
| Expenditures | $5,000 | $4,420 | Yes | |
| **Fund B** | | | | |
| Assets + deferred outflows of resources | $6,800 | $9,240 | No | Yes |
| Liabilities + deferred inflows of resources | $1,300 | $4,010 | No | |
| Revenues | $3,200 | $4,670 | No | |
| Expenditures | $5,900 | $4,420 | Yes | |
| **Fund C** | | | | |
| Assets + deferred outflows of resources | $3,000 | $9,240 | No | No |
| Liabilities + deferred inflows of resources | $700 | $4,010 | No | |
| Revenues | $3,800 | $4,670 | No | |
| Expenditures | $2,100 | $4,420 | No | |

# Effect of Interfund Receivables and Payables

- Balances may be netted *within individual funds* for the purpose of applying the 10 percent and 5 percent criteria
  - Effect - Lowers thresholds for total assets and total liabilities

# Example

| | Fund A | Fund B | Fund C | Fund D | Total |
|---|---|---|---|---|---|
| Due from: | | | | | |
| Fund A | | | | | $0 |
| Fund B | $10 | | | | $10 |
| Fund C | $25 | $5 | | | $30 |
| Fund D | $5 | | $15 | | $20 |
| Total | $40 | $5 | $15 | $0 | $60 |
| | | | | | |
| Due to: | | | | | |
| Fund A | | ($10) | ($25) | ($5) | ($40) |
| Fund B | | | ($5) | | ($5) |
| Fund C | | | | ($15) | ($15) |
| Fund D | | | | | ($0) |
| Total | ($0) | ($10) | ($30) | ($20) | ($60) |
| Net | $40 | ($5) | ($15) | ($20) | $0 |

# Gross vs. Net

| | Fund A | Fund B | Fund C | Fund D | Total |
|---|---|---|---|---|---|
| Interfund receivables | | | | | |
| Without netting | $40 | $5 | $15 | $0 | $60 |
| With netting | $40 | $0 | $0 | $0 | $40 |
| Interfund payables | | | | | |
| Without netting | ($0) | ($10) | ($30) | ($20) | ($60) |
| With netting | ($0) | ($5) | ($15) | ($20) | ($40) |

# Qualitative Factors

- A fund *may* be classified as major if “the government's officials believe [the fund] is particularly important to financial statement users (for example, because of public interest or consistency).”
  - An individual fund that *normally* meets the size criteria, but not in a given year
  - Heightened public interest

# Balance Sheet

# Presentation

- Distinguish
  - Assets from deferred outflows of resources
  - Liabilities from deferred inflows of resources
- No need for a classified presentation
  - Practical result of current financial resources measurement focus

# Balance Sheet: Assets, Liabilities, and Deferred Inflows

| | General | Capital Projects | Debt Service | Total Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 6,127,206 | $ 1,090,139 | $ 1,362,371 | $ 4,281,747 | $ 12,861,463 |
| Investments | 14,989,065 | 4,980,521 | 1,000,000 | 538,805 | 21,508,391 |
| Receivables (net of allowance for uncollectibles) | 6,067,247 | - | 4,309,618 | 2,502,201 | 12,879,066 |
| Intergovernmental receivable | 513,579 | 507,459 | - | 688,445 | 1,709,483 |
| Due from other funds | 145,000 | 335,000 | - | - | 480,000 |
| Due from component unit | 32,615 | - | - | - | 32,615 |
| Inventories | 806,623 | - | - | - | 806,623 |
| Prepaid items | 48,114 | - | - | 614 | 48,728 |
| Advances to other funds | 290,148 | - | - | - | 290,148 |
| Total assets | $ 29,019,597 | $ 6,913,119 | $ 6,671,989 | $ 8,011,812 | $ 50,616,517 |
| | | | | | |
| **LIABILITIES** | | | | | |
| Accounts payable | 1,646,243 | - | - | 516,358 | 2,162,601 |
| Contracts payable | - | 1,129,196 | - | - | 1,129,196 |
| Retainage payable | - | 1,070,044 | - | - | 1,070,044 |
| Accrued liabilities | 2,504,060 | - | - | 431,957 | 2,936,017 |
| Deposits payable | - | - | - | 18,367 | 18,367 |
| Due to retirement systems | 2,024,105 | - | - | 78,108 | 2,102,213 |
| Due to other funds | 335,000 | - | - | 157,000 | 492,000 |
| Advances from other funds | - | - | - | 290,148 | 290,148 |
| Bond anticipation notes payable | - | 6,905,200 | - | - | 6,905,200 |
| Unearned revenue | 2,089,936 | - | - | 227,585 | 2,317,521 |
| Total liabilities | 8,599,344 | 9,104,440 | - | 1,719,523 | 19,423,307 |
| | | | | | |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Unavailable revenue-property taxes | 617,585 | - | 26,429 | - | 644,014 |
| Unavailable revenue-special assessments | - | - | 4,230,000 | - | 4,230,000 |
| Total deferred inflows of resources | 617,585 | - | 4,256,429 | - | 4,874,014 |

# Fund Balance

- Term unique to governmental funds
- Up to five different components
- Basis for categorization
  - Constraints on how *existing* resources of the fund can be spent
  - The sources of those constraints

# Presentation of Components

- From most constraining to least constraining
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned

# Balance Sheet: Fund Balance

| | General | Capital Projects | Debt Service | Total Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **FUND BALANCES (DEFICITS)** | | | | | |
| **Nonspendable:** | | | | | |
| Endowment | $ - | $ - | $ - | $ 10,000 | $ 10,000 |
| Inventory | 806,623 | - | - | - | 806,623 |
| Prepaid items | 48,114 | - | - | 614 | 48,728 |
| Long-term interfund advances | 290,148 | - | - | - | 290,148 |
| **Restricted:** | | | | | |
| Special assessment project | - | 875,000 | - | - | 875,000 |
| Library purposes | - | - | - | 52,276 | 52,276 |
| Housing services | - | - | - | 625,881 | 625,881 |
| Community redevelopment | - | - | - | 4,514,328 | 4,514,328 |
| Law enforcement | - | - | - | 376,200 | 376,200 |
| Youth programs | - | - | - | 1,297 | 1,297 |
| Nonrecurring repairs and other parking improvements | - | - | - | 338,917 | 338,917 |
| General obligation debt | - | - | 911,560 | - | 911,560 |
| Special assessment debt | - | - | 1,504,000 | - | 1,504,000 |
| **Committed:** | | | | | |
| Special assessment project | - | 1,200,000 | - | - | 1,200,000 |
| Revenue stabilization | 407,377 | - | - | - | 407,377 |
| Open space | - | - | - | 372,776 | 372,776 |
| **Assigned:** | | | | | |
| Purchases on order | 592,659 | - | - | - | 592,659 |
| Subsequent year's budget: appropriation of fund balance | 2,215,728 | - | - | - | 2,215,728 |
| **Unassigned** | 15,442,019 | (4,266,321) | - | - | 11,175,698 |
| Total fund balances (deficits) | 19,802,668 | (2,191,321) | 2,415,560 | 6,292,289 | 26,319,196 |
| Total liabilities, deferred inflows of resources, and fund balances (deficits) | $ 29,019,597 | $ 6,913,119 | $ 6,671,989 | $ 8,011,812 | $ 50,616,517 |

Minimum level of disclosure is at the “function” level

# 1. Nonspendable Fund Balance

- Not in spendable form
  - Permanently: Inventories and prepaids
  - Temporarily: Assets acquired for sale prior to sale
    - Limitation on use of eventual proceeds?
      - Classify based on ultimate limitation on use
- Not spendable because of legal requirement to maintain intact
  - Endowment principal
  - Principal of a revolving loan fund

# Amount of Each Component

- Either display or disclose
  - Nonspendable in form
  - Nonspendable because of a legal requirement to maintain intact

# 2. Restricted Fund Balance

- Externally enforceable limitations
- Sources (same as for *restricted net position*)
  - Creditors
  - Grantors
  - Contributors
  - Laws and regulations of other governments
  - Constitutional provisions
  - Enabling legislation

# Clarifications

- May include resources related to stabilization arrangements (rainy day fund)
  - If limitation on use is externally enforceable, *and*
  - Circumstances that trigger spending are both specific and nonroutine

# Clarifications

- Unaffected by <u>fund balance policy</u>
  - A fund balance policy is a plan for accumulating resources, rather than a limitation on how existing resources may be spent.

# 3. Committed Fund Balance

- Self-imposed legal limitation
  - Highest level of decision-making authority
  - Formal action
  - Remains in force unless formally rescinded
  - In place by the end of the reporting period
    - Formula for calculation is sufficient

# Clarifications

- Unaffected by operating budget
  - Appropriations = Authorization to spend vs. limitation on spending of existing resources
  - Budgetary limitations naturally lapse over time
- May include resources related to stabilization arrangements
  - If limitation on use are internally imposed restraints, *and*
  - Circumstances that trigger spending are both specific and nonroutine

# 4. Assigned Fund Balance

- Earmarking of resources
- Contrast with committed fund balance
  - Level at which limitation imposed
    - Highest level (committed)
    - Power may be delegated to a group or individual (assigned)
  - Type of action
    - Formal (committed)
    - Less formal (assigned)
  - Timing
    - No later than the end of the reporting period (committed)
    - Later date (assigned)

# Clarifications

- Must reflect any encumbrances not reflected in restricted or committed fund balance
- May never be used in connection with stabilization arrangements
- Used for appropriated fund balance
  - Authorization to use existing fund balance to "balance" a projected operating deficit
    - Cap = Projected operating deficit

# Clarifications

- Can never exceed the difference between total fund balance and the sum of its nonspendable, restricted, and committed components
- Maximum amount

| | |
|---|---|
| Total fund balance | $100 |
| Less: nonspendable fund balance | (5) |
| Less: restricted fund balance | (20) |
| Less: committed fund balance | (15) |
| Maximum assigned fund balance | $ 60 |

# 5. Unassigned Fund Balance

- Positive balance only in the general fund
  - Resources would not be reported in another fund unless they were not, at a minimum, earmarked (assigned) for the purpose of that fund
- Deficit in any governmental fund = *unassigned fund balance*

# Flow Assumptions

- Needed for calculation of various components
  - Use of restricted resources vs. unrestricted resources (committed and assigned)
  - Use of committed resources vs. assigned resources
- Formal policy or assumed policy
  - Assumed policy
    - First use committed resources
    - Then use assigned resources
    - Only then use unassigned resources

# Total Columns and Comparative Data

- Must report a total column for governmental funds

- Presentation of comparative data optional

# Eliminating Interfund Balances

- Only among governmental funds
- Two approaches
  1. Use a separate eliminations column
  2. Keep interfund balances in fund financial statements and then simply drop them from government-wide financial statements

# Eliminations Column

| | General Fund | Fund A | Fund B | Fund C | Eliminations | Total |
|---|---|---|---|---|---|---|
| Interfund receivables | $100 | | | $25* | ($100) | $25 |
| Interfund payables | | ($100) | | | 100 | $0 |
| | $100 | ($100) | | $25 | $0 | $25 |

*receivable from enterprise fund.

# Reconciliation to Governmental Activities

- *Summary* reconciliation
  - Face of the governmental fund balance sheet
  - Accompanying schedule (following page)
- Detailed information in notes if necessary
  - If “aggregated information in the summary reconciliation obscures the nature of the individual elements of a particular reconciling item.”

# Summary Reconciliation

| | | |
|---|---|---|
| Total fund balances reported on the governmental funds balance sheet | $ | 110,452,026 |
| Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following: | | |
| CAPITAL ASSETS | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 283,857,250 |
| ALLOCATION OF INTERNAL SERVICE FUND NET POSITION | | |
| Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net position and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position. | | |
| Cash and cash equivalents | | 24,694,344 |
| Accounts receivable | | 42,598 |
| Advances | | 778,892 |
| Capital assets, net of depreciation | | 5,953,341 |
| Accounts payable | | (461,068) |
| Interest payable | | (90,990) |
| Unearned revenue | | (9) |
| Refundable deposits | | (22,690) |
| Claims payable | | (10,411,383) |
| Long-term debt | | (4,465,248) |
| ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES | | |
| Unavailable revenue which are deferred inflows of resources in the Governmental Funds because they are not available currently are taken into revenue in the Statement of Activities. | | 11,255,022 |
| DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES | | |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore are not reported in the funds. | | 5,746,620 |
| LONG-TERM ASSETS AND LIABILITIES | | |
| The assets and liabilities below are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Interest payable | | (337,108) |
| Long-term debt | | (40,600,544) |
| Compensated absences | | (3,261,458) |
| Net pension obligation | | (686,000) |
| Net pension liability | | (171,786,293) |
| Net OPEB obligation | | (33,297,060) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | $ | 177,360,242 |

# Statement of Revenues, Expenditures, and Changes in Fund Balances

# Basic Format

Revenues

Expenditures

Excess (deficiency) of revenues over expenditures

Other financing sources and uses (including transfers)

Special and extraordinary items

Net change in fund balances

Fund balance—beginning of period

Fund balance—end of period

# Basic Format

| | General | Community Preservation Act | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues** | | | | |
| Property Taxes | $ 76,982,722 | $ 910,368 | $ - | $ 77,893,090 |
| Tax Liens | 410,863 | 3,573 | - | 414,436 |
| Excises | 3,319,183 | - | - | 3,319,183 |
| Penalties and Interest | 225,491 | 1,573 | - | 227,064 |
| Licenses and Permits | 565,873 | - | 65,340 | 631,213 |
| Fees and Other Departmental | 770,465 | - | - | 770,465 |
| Intergovernmental | 2,594,473 | 259,489 | 1,104,554 | 3,958,516 |
| Charges for Services | 37,265 | - | 1,838,217 | 1,875,482 |
| Fines and Forfeitures | 125,975 | - | - | 125,975 |
| Investment Earnings | 74,848 | 15,898 | 154,329 | 245,075 |
| In Lieu of Taxes | 15,006 | - | - | 15,006 |
| Contributions | - | - | 210,475 | 210,475 |
| Miscellaneous | 30,623 | - | - | 30,623 |
| Total Revenues | 85,152,787 | 1,190,901 | 3,372,915 | 89,716,603 |
| | | | | |
| **Expenditures** | | | | |
| Current | | | | |
| General Government | 8,551,236 | 944,341 | 680,201 | 10,175,778 |
| Public Safety | 7,871,066 | - | 1,260,235 | 9,131,301 |
| Education | 54,096,552 | - | - | 54,096,552 |
| Intergovernmental | 238,057 | - | - | 238,057 |
| Highways and Public Works | 3,123,866 | - | 557,123 | 3,680,989 |
| Human Services | 2,321,420 | 102,397 | 948,939 | 3,372,756 |
| Culture and Recreation | 1,388,546 | 9,198 | 436,500 | 1,834,244 |
| Employee Benefits and Insurance | 7,381,406 | - | - | 7,381,406 |
| Debt Service | | | | - |
| Principal | 2,065,990 | - | - | 2,065,990 |
| Interest | 553,739 | - | - | 553,739 |
| Capital Outlay | - | - | 9,049 | 9,049 |
| Total Expenditures | 87,591,878 | 1,055,936 | 3,892,047 | 92,539,861 |
| | | | | |
| Excess of Revenues Over (Under) Expenditures | (2,439,091) | 134,965 | (519,132) | (2,823,258) |
| | | | | |
| **Other Financing Sources (Uses)** | | | | |
| Transfers In | 1,098,616 | - | 493,300 | 1,591,916 |
| Transfers Out | (396,439) | - | (195,477) | (591,916) |
| Lease Financing | 313,362 | - | - | 313,362 |
| Total Other Financing Sources (Uses) | 1,015,539 | - | 297,823 | 1,313,362 |
| | | | | |
| Net Change in Fund Balance | (1,423,552) | 134,965 | (221,309) | (1,509,896) |
| | | | | |
| Beginning Fund Balance | 16,850,984 | 4,786,742 | 7,316,551 | 28,954,277 |
| Ending Fund Balance | $ 15,427,432 | $ 4,921,707 | $ 7,095,242 | $ 27,444,381 |

# Revenues

- Present by major source
  - Taxes
  - Licenses and permits
  - Intergovernmental revenues
  - Charges for services
  - Fines and forfeitures
  - Miscellaneous

# Expenditures

- Present by
  - Function or program *(at a minimum)*
    - Function = Related activities aimed at accomplishing a major service or regulatory responsibility
    - Program = Activities, operations, or organization units directed to the attainment of specific purposes or objectives
  - Character
    - Current
    - Debt service
    - Capital outlay
    - Intergovernmental

# Examples of Functions

- General government
- Public safety
- Highways and streets
- Sanitation
- Health and welfare
- Culture and recreation
- Conservation

# Examples of Programs within a Function

- Function = public safety
  - Police
  - Fire
  - Corrections
  - Protective inspection

# Function/program vs. Character

- Typically function/program detail provided only for *current expenditures*

Current:
- General government
- Public safety
- Highways and streets
- Sanitation
- Health and welfare
- Culture-recreation
- Conservation

Debt service

Capital outlay

Intergovernmental

# Capital Outlay

- Normally used only in capital projects funds
  - Amount reported will often include non-capitalized, project-related costs (e.g., furnishings)
- Routine capital expenditures in the general fund normally are included in the appropriate functional category

# Grants to Other Governments

- Theoretical classification
  - *Intergovernmental expenditures*
- Practice
  - Commonly included in corresponding functional category within *current expenditures*

# Total Columns and Comparative Data

- A government must report a total column for governmental funds

- The presentation of comparative data is optional

# Eliminating Interfund Transfers

- Only among governmental funds

- Two approaches
  - Separate eliminations column
  - Keep transfers in fund financial statements but drop from government-wide financial statements

# Reconciliation to Governmental Activities

- *Summary* reconciliation
  - Face of the governmental fund statement of revenues, expenditures, and changes in fund balances
  - Accompanying schedule (following page)
- Detailed information in notes if necessary
  - If “aggregated information in the summary reconciliation obscures the nature of the individual elements of a particular reconciling item.”

# Summary Reconciliation

| | | |
|---|---|---|
| Net Change in Fund Balances - total governmental funds (page 34) | $ | (15,418,066) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. | | 3,237,028 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | 4,436,149 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net assets. | | 118,826 |
| The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | (240,435) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | | (10,249,187) |
| The internal service funds are used by management to charge the costs of fleet management and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. | | (241,608) |
| Change in net position of governmental activities | $ | (18,357,293) |

# Example

- Reconciliation
  - $450,000 difference between capital outlays expenditures and depreciation expense
- Notes

| | |
|---|---|
| Capital outlay | $500,000 |
| Depreciation expense | (50,000) |
| Increase | $450,000 |

# Question 1

How are funds presented in the governmental fund financial statements?

A. By major fund

B. By fund type

C. Both A and B

# Question 2

Classification as a major fund is only required in the case of a fund that meets both the 10 percent test and the 5 percent test.

A. True

B. False

# Question 3

What is the point of reference for applying the 10 percent test for determining whether an individual governmental fund is a major fund?

A. Governmental funds in total + enterprise funds

B. Governmental funds in total

# Question 4

A governmental fund that reported 1) 15% of total assets and deferred outflows of resources for governmental funds and 2) 7% percent of total revenues for governmental funds + enterprise funds in total must be reported as a major fund

A. True

B. False

# Question 5

Based on the assumptions in the next slide, which of the funds must be reported as a major fund?

_____ General fund

_____ Governmental Fund A

_____ Governmental Fund B

_____ Governmental Fund C

# Question 5 (assumptions)

| | Assets + Deferred outflows | Liabilities + Deferred inflows | Revenues | Expenditures/ Expense |
|---|---|---|---|---|
| General fund | $500 | $70 | $1,150 | $1,125 |
| Governmental fund A | $200 | $25 | $800 | $780 |
| Governmental fund B | $60 | $10 | $150 | $115 |
| Governmental fund C | $50 | $10 | $80 | $75 |
| Total governmental funds: | $810 | $115 | $2,180 | $2,095 |
| Enterprise funds | $450 | $220 | $685 | $545 |
| Total governmental + enterprise | $1,260 | $335 | $2,865 | $2,640 |

# Question 6

Which of the following statements is true in regard to interfund receivables and payables and the application of the 10 percent and 5 percent tests?

A. They may not be netted

B. They may be netted in total

C. They may be netted by individual fund

D. They must be netted in total

E. They must be netted by individual fund

# Question 7

Which of the following statements is true regarding the classification of an individual governmental fund if it does not meet the 10 percent and 5 percent tests?

A. It may be reported as a major fund

B. It may not be reported as a major fund

# Question 8

In which of the following categories could resources associated with a stabilization arrangement potentially be placed?

A. Restricted fund balance
B. Committed fund balance
C. Assigned fund balance
D. All of the above
E. Both A and B

# Question 9

In which of the following situations must limitations be in place as of the end of the fiscal year?

A. Committed fund balance

B. Assigned fund balance

C. Both A and B

D. None of the above

# Question 10

Which of the following is a requirement for categorization as committed fund balance?

A. Formal action to impose the limitation

B. Formal action to remove the limitation

C. Both A and B

D. None of the above

# Question 11

*Appropriated fund balance* should be included as part of the calculation of which of the following components of fund balance?

A. Restricted fund balance

B. Committed fund balance

C. Assigned fund balance

D. Either B or C

E. None of the above

# Question 12

To calculate the various components of fund balance, a flow assumption is needed for

A. Restricted resources vs. unrestricted resources

B. Committed fund balance vs. assigned fund balance vs. unassigned fund balance

C. Both A and B

# Proprietary Funds

Government Finance Officers Association

# Enterprise Funds

# Overview

- Differences from private sector
- Situations unique to public sector

# Interest Capitalization

- Private sector
  - Formula
    - Interest rate x average accumulated expenditures during period
  - Start = Preconstruction activities
- Public sector
  - Formula (for certain tax-exempt debt)
    - Interest expense – interest earnings on unspent reinvested proceeds
  - Start = Issuance of debt

GASB Statement No. 89, *Accounting for Interest Cost during the Period of Construction,* proposes the elimination of capitalized interest as part of the cost of the capital asset (except for regulated industries). It is expected to be released at the end of June 2018, with the effective date for periods beginning after December 15, 2019.

# Capital Asset Impairments

- Private sector
  - Impairment if carrying value exceeds undiscounted future cash flows
- Public sector
  - Impairment if significant unexpected decline in service utility

# Debt Refundings

- Private sector
  - Advance refunding results in removal of old debt only if legal defeasance
  - Difference between carrying value of old debt and resources used to refund it = gain or loss of the period
- Public sector
  - Advance refunding results in removal of old debt if legal or in-substance defeasances
  - Difference between carrying value of old debt and resources used to refund it = amortized over shorter of life of old or new debt as adjustment to interest expense

*Tax Cuts and Jobs Act of 2017 essentially eliminated advance refundings for municipal bonds by making interest on advance refunding bonds taxable.*

# Compensated Absences

- Private sector
  - No guidance on valuation
  - Accrual of sick leave permitted(defined narrowly as time taken off for illness and not otherwise reimbursable)
- Public sector
  - Valuation = Salary rates in effect at end of period
  - Accrual of sick leave prohibited (except for unused amounts payable at the end of employment)

# Unique Transactions

- Connection fees
  - Also known as *system development fees* or *tap fees*
  - Two parts
    - Cost of connection
      - Operating revenue
    - Incremental cost of expanding service
      - Capital contribution
      - Nonoperating revenue

# Unique Transactions (cont.)

- Impact/developer fees
  - Receivable when enforceable legal claim
  - Deposit revenue recognized when it becomes nonrefundable

# Regulated Industries

- Optional specialized accounting
  - Certain charges may be deferred and amortized if recoverable through future rates
  - Revenues associated with rates levied in anticipation of future charges may be deferred until charge incurred
  - If a gain reduces allowable costs and this reduction will be reflected in lower future rates, the gain may be deferred and amortized over the same period

# Regulated Industries (cont.)

- Three criteria for specialized accounting
  1. Rates are established by or subject to approval by
     - Independent, third-party regulator
     - Governing board itself (if empowered by statute or contract to establish rates that bind customers)
  2. Rates are designed to recover the specific enterprise's costs
  3. It is reasonable to assume the regulated activity can set and collect charges sufficient to recover its costs

# Question 1

It is possible that a capital asset that is considered to be impaired in the private sector would not be considered to be impaired in the public sector.

A. True

B. False

# Question 2

In which sector is the concept of *in-substance defeasance* relevant?

A. Public sector

B. Private sector

C. Both A and B

D. None of the above

# Question 3

In which period(s) is the difference between the carrying amount of refunded debt and the amount used to redeem or defease it (new debt) recognized in operations?

A. Current period

B. Life of the refunding debt

C. Life of the refunded debt

D. Shorter of B or C

# Question 4

How should vacation leave be valued in the public sector?

A. Undiscounted value of expected future payments

B. Present value of expected future payments

C. Current cost at the end of the period

D. Current cost at the date of the issuance of the financial statements

# Question 5

When would an impact fee be recognized as revenue?

A. When legally enforceable

B. When received in cash

C. When it becomes nonrefundable

# Internal Service Funds

# Cost reimbursement basis

- Enterprise funds
  - May be subsidized
    - Need not recover entire cost of providing service
- Internal service funds
  - Must recover entire cost of providing service
    - Including cost of capital
      - Depreciation
      - Replacement
      - Debt service
    - Over time
  - Accrued liabilities must be billed in full each year

# Cost reimbursement (cont.)

- Risk financing
  - Premiums may be calculated using a smoothing technique, but should be designed to recover the full cost over time
  - Premiums may include a reasonable provision for anticipated catastrophic losses

# Type of customers

- May have external customers
  - Internal customers must remain predominant
    - Otherwise reclassify as enterprise fund
  - If unclear – does the fund exist primarily to serve the government?

# Interest capitalization

- Not applicable to most internal service funds
  - Would violate the requirement that interest be reported as a separate line item in *governmental activities*
- Will be eliminated with GASB Statement No. 89

# Question 1

For a given activity to qualify for reporting in an internal service fund, there must be a *reasonable* expectation that charges to customers will be sufficient to cover the costs of providing goods and service *each period*.

A. True

B. False

# Question 2

A surplus in an internal service fund at year end is proof that the amount reported as expenditure or expense by other funds was overstated.

A. True

B. False

# Question 3

Which of the following practices is considered to be consistent with the cost-reimbursement rule for internal service funds?

A. Setting fees and charges based on replacement cost

B. Setting fees and charges based on debt service

C. Setting fees and charges based on depreciation

D. All of the above

# Question 4

If an internal service fund is used for risk financing activities, which of the following statements is true?

A. Premiums may be designed to recover cost each year.
B. Premiums should be designed recover cost over time.
C. Either A or B
D. None of the above

# Question 5

How should a fund that serves both internal and external customers be classified?

A. Internal service fund

B. Enterprise fund

C. Either A or B

# Question 6

Interest normally should be capitalized in both enterprise funds and internal service funds.

A. True

B. False

# Proprietary Fund Financial Statements

Government Finance Officers Association

# Basic Financial Statements

- Statement of net position
- Statement of revenues, expenses, and changes in net position
- Statement of cash flows

# Major Fund Reporting

- Only applicable to enterprise funds
  - Same rules applicable to governmental funds
    - 10 percent and 5 percent tests (mandatory)
    - Voluntary use in other situations
- Internal service funds reported in a single column
  - “Fund-type reporting”

# Statement of Net Position

- Two formatting options
  - Balance sheet format
    - Assets + Deferred Outflows = Liabilities + Deferred Inflows + Net Position
  - Net position format
    - [Assets + Deferred Outflows] – [Liabilities + Deferred Inflows] = Net Position
- Title should reflect format
  - Balance sheet format = “Balance Sheet”
  - Net position format = “Statement of Net Position”

# Classified Presentation

- Current assets
  - Reasonably expected to be realized in cash within one year or sold or consumed within a year
    - Exclude restricted assets not available to liquidate current liabilities
- Current liabilities
  - Liquidation reasonably expected to require the use of current assets, or the creation of other current liabilities
    - Includes liabilities ordinarily liquidated within 12 months

# Example of Classified Presentation

| | Water | Sewer | Total | Governmental Activities - Internal Service Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT: | | | | |
| Cash and cash equivalents | $ 10,427,979 | $ 4,623,037 | $ 15,051,016 | $ 2,820,647 |
| Receivables, net of allowance for uncollectibles: | | | | |
| User fees | 3,179,837 | 1,760,916 | 4,940,753 | - |
| Departmental and other | - | - | - | 656,219 |
| Water and sewer liens | 57,640 | 41,998 | 99,638 | - |
| Special assessments | - | 728,730 | 728,730 | - |
| Total current assets | 13,665,456 | 7,154,681 | 20,820,137 | 3,476,866 |
| NONCURRENT: | | | | |
| Receivables, net of allowance for uncollectibles: | | | | |
| Special assessments | - | 6,325,979 | 6,325,979 | - |
| Capital assets, net of accumulated depreciation: | | | | |
| Nondepreciable | 3,628,889 | 115,130 | 3,744,019 | - |
| Depreciable | 31,434,753 | 35,484,194 | 66,918,947 | - |
| Total noncurrent assets | 35,063,642 | 41,925,303 | 76,988,945 | - |
| TOTAL ASSETS | 48,729,098 | 49,079,984 | 97,809,082 | 3,476,866 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred charges on refunding | 60,088 | 207,479 | 267,567 | - |
| Deferred outflows of resources related to pensions | 1,963,859 | 280,197 | 2,244,056 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 2,023,947 | 487,676 | 2,511,623 | - |
| **LIABILITIES** | | | | |
| CURRENT: | | | | |
| Warrants payable | 283,557 | 18,017 | 301,574 | 195,216 |
| Accrued payroll | 39,861 | 5,364 | 45,225 | - |
| Health claims payable | - | - | - | 1,684,000 |
| Accrued interest | 104,135 | 142,207 | 246,342 | - |
| Other Liabilities | - | 9,921 | 9,921 | - |
| Payroll withholdings | - | - | - | 526,130 |
| Compensated absences | 83,000 | 13,000 | 96,000 | - |
| Workers' compensation | - | - | - | 41,000 |
| Notes payable | 1,700,000 | - | 1,700,000 | - |
| Bonds payable | 1,302,150 | 1,975,415 | 3,277,565 | - |
| Total current liabilities | 3,512,703 | 2,163,924 | 5,676,627 | 2,446,346 |
| NONCURRENT: | | | | |
| Compensated absences | 284,000 | 33,000 | 317,000 | - |
| Workers' compensation | - | - | - | 364,000 |
| Other postemployment benefits | 1,055,000 | 169,000 | 1,224,000 | - |
| Net pension liability | 5,351,896 | 1,002,160 | 6,354,056 | - |
| Bonds payable | 12,261,838 | 15,654,402 | 27,916,240 | - |
| Total noncurrent liabilities | 18,952,734 | 16,858,562 | 35,811,296 | 364,000 |
| TOTAL LIABILITIES | 22,465,437 | 19,022,486 | 41,487,923 | 2,810,346 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | | |
| Deferred inflows of resources related to pensions | 94,829 | 214,563 | 309,392 | - |
| **NET POSITION** | | | | |
| Net investment in capital assets | 22,888,959 | 19,899,502 | 42,788,461 | - |
| Unrestricted | 5,303,820 | 10,431,109 | 15,734,929 | 666,520 |
| TOTAL NET POSITION | $ 28,192,779 | $ 30,330,611 | $ 58,523,390 | $ 666,520 |

# Net Position vs. Capital Maintenance Focus

- Private sector focus = Capital maintenance
  - Preservation of invested capital
    - Separate reporting for *retained earnings*
- Public sector focus = Accessibility
  - Inaccessible
    - *Net investment in capital assets*
    - *Restricted net position*
      - Narrower than the purpose of the fund
  - Accessible
    - *Unrestricted net position*

# Total Columns

- Required for enterprise funds
  - Tie to business-type activities column
    - Provide reconciliation, if needed
- Not required for proprietary funds in total
  - No tie to government-wide financial statements

# Statement of Resource Flows

- "Statement of revenues, expenses, and changes in net position"
  - Operating v. nonoperating
    - Operating revenue
      - Amounts charged to customers
    - Operating expense
      - Cost of providing goods and services

# Example of Statement of Resource Flows

| | Water | Sewer | Total | Governmental Activities - Internal Service Funds |
|---|---|---|---|---|
| OPERATING REVENUES: | | | | |
| Employee contributions | $ - | $ - | $ - | $ 3,578,792 |
| Employer contributions | - | - | - | 18,347,825 |
| Charges for services | 8,248,851 | 4,354,327 | 12,603,178 | - |
| TOTAL OPERATING REVENUES | 8,248,851 | 4,354,327 | 12,603,178 | 21,926,617 |
| OPERATING EXPENSES: | | | | |
| Cost of services and administration | 5,767,683 | 2,485,010 | 8,252,693 | - |
| Depreciation | 1,803,614 | 1,175,311 | 2,978,925 | - |
| Employee benefits | 1,201,239 | 172,639 | 1,373,878 | 23,534,290 |
| Property and liability insurance | - | - | - | 36,402 |
| TOTAL OPERATING EXPENSES | 8,772,536 | 3,832,960 | 12,605,496 | 23,570,692 |
| OPERATING INCOME (LOSS) | (523,685) | 521,367 | (2,318) | (1,644,075) |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Investment income | 16,453 | 17,742 | 34,195 | 3,055 |
| Interest expense | (330,683) | (698,154) | (1,028,837) | - |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET | (314,230) | (680,412) | (994,642) | 3,055 |
| CHANGE IN NET POSITION | (837,915) | (159,045) | (996,960) | (1,641,020) |
| NET POSITION AT BEGINNING OF YEAR | 29,030,694 | 30,489,656 | 59,520,350 | 2,307,540 |
| NET POSITION AT END OF YEAR | $ 28,192,779 | $ 30,330,611 | $ 58,523,390 | $ 666,520 |

# Revenue Reporting

- By major source
- Net of discounts and allowances
  - Parenthetical disclosure

| | |
|---|---|
| Fees and charges (net of discounts and allowances of $7) | $ 93 |

  - Provide detail in notes

[notes]: "Fees and charges are reported net of discounts and allowances of $7."

  - Report gross amount with deduction

| | |
|---|---|
| Fees and charges | $100 |
| Less: discounts and allowances | (7) |
| Net fees and charges | $ 93 |

# Statement of Cash Flows

- Focus on *cash* or *cash and cash equivalents*

| | Water | Sewer | Total | Governmental Activities - Internal Service Funds |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Receipts from customers and users | $ 8,195,012 | $ 4,281,460 | $ 12,476,472 | $ 2,922,573 |
| Receipts from interfund services provided | - | - | - | 18,347,825 |
| Payments to vendors | (3,542,742) | (1,985,962) | (5,528,704) | (36,402) |
| Payments to employees | (2,580,998) | (504,934) | (3,085,932) | - |
| Payments for interfund services used | (750,575) | (145,120) | (895,695) | (21,005,613) |
| NET CASH FROM OPERATING ACTIVITIES | 1,320,697 | 1,645,444 | 2,966,141 | 228,383 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Proceeds from the issuance of bonds and notes | 1,700,000 | - | 1,700,000 | - |
| Acquisition and construction of capital assets | (1,880,192) | (23,462) | (1,903,654) | - |
| Principal payments on bonds and notes | (1,200,263) | (1,913,300) | (3,113,563) | - |
| Special assessments | - | 986,171 | 986,171 | - |
| Interest expense | (430,448) | (760,885) | (1,191,333) | - |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (1,810,903) | (1,711,476) | (3,522,379) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Investment income | 16,453 | 17,742 | 34,195 | 3,055 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (473,753) | (48,290) | (522,043) | 231,438 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 10,901,732 | 4,671,327 | 15,573,059 | 2,589,209 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 10,427,979 | $ 4,623,037 | $ 15,051,016 | $ 2,820,647 |

# Statement of Cash Flows

- Direct method required (in contrast with private sector)
  - Reconciliation must be provided
    - On face of statement
    - As accompanying schedule

| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES: | | | | |
|---|---|---|---|---|
| Operating income (loss) | $ (523,685) | $ 521,367 | $ (2,318) | $ (1,644,075) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation | 1,803,614 | 1,175,311 | 2,978,925 | - |
| Deferred (outflows)/inflows related to pensions | (1,862,272) | (63,608) | (1,925,880) | - |
| Changes in assets and liabilities: | | | | |
| Water and sewer liens | (20,930) | (14,907) | (35,837) | - |
| User fees | (32,909) | (58,114) | (91,023) | - |
| Departmental and other | - | - | - | (656,219) |
| Warrants payable | (365,312) | (8,562) | (373,874) | 163,547 |
| Accrued payroll | (9,745) | (3,324) | (13,069) | - |
| Payroll witholdings | - | - | - | 526,130 |
| Other postemployment benefits | (40,000) | (1,000) | (41,000) | - |
| Net pension liability | 2,312,936 | 91,127 | 2,404,063 | - |
| Health claims payable | - | - | - | 1,684,000 |
| Liabilities due depositors | - | 154 | 154 | - |
| Accrued compensated absences | 59,000 | 7,000 | 66,000 | - |
| Workers' compensation | - | - | - | 155,000 |
| Total adjustments | 1,844,382 | 1,124,077 | 2,968,459 | 1,872,458 |
| NET CASH FROM OPERATING ACTIVITIES | $ 1,320,697 | $ 1,645,444 | $ 2,966,141 | $ 228,383 |

# Categories of Cash Flows

- Operating activities
  - Focus on operating income v. operating statement
- Two categories of financing activities
  - Noncapital financing activities
    - Includes capital grants to other governments
  - Capital and related financing activities
    - Includes acquisition of capital assets
    - Excludes capital grants to others
- Investing activities
  - Excludes acquisition of capital assets

# Noncash Transactions

- Two criteria
  1. Changes in balances that do not involve cash flows
  2. If case, would have been classified in a category other than *cash flows from operating activities*
- Example = Capital contribution
  - Increases assets

# Traceability to Statement of Net Position

- Separate line on statement of net position

| | |
|---|---|
| Cash | $150 |
| Restricted assets: | |
| Cash | 6 |
| Investments | 19 |

- Parenthetical reference on statement of net position

| | |
|---|---|
| Cash | $150 |
| Restricted assets (including $6 cash) | 25 |

- Parenthetical reference on statement of cash flows

| | |
|---|---|
| Ending cash (including $6 included in *restricted assets*) | $156 |

# Traceability (cont.)

- Reconciliation on face of statement of cash flows

| | |
|---|---|
| Ending cash – statement of cash flows | $156 |
| Less: amount reported in | |
| *restricted assets* | (6) |
| Ending cash – statement of net position | $150 |

# Question 1

Which of the following statements is true concerning the presentation of funds in the proprietary fund financial statements?

A. Separate columns should be reported for each major enterprise fund

B. Separate columns should be reported for each major internal service fund

C. Both A and B

# Question 2

Which of the following statements is true concerning the presentation of total columns in the proprietary fund financial statements?

A. A total column must be presented for enterprise funds

B. A total column must be presented for internal service funds

C. A total column must be presented for proprietary funds

D. Both A and C

# Question 3

When is the classified presentation of assets and liabilities required?

A. When the net position format is used

B. When the balance sheet format is used

C. Both A and B

D. None of the above

# Question 4

Which of the following could be reported as a component of *net position*?

A. Restricted net position

B. Committed net position

C. Assigned net position

D. All of the above

E. Both A and B

# Question 5

The components used to categorize net position focus on

A. Capital maintenance

B. Accessibility

C. Liquidity

D. All the above

E. Both A and B

# Question 6

The statement of revenues, expenses, and changes in net position, should distinguish

A. Operating v. nonoperating

B. Capital  v. noncapital

C. Both A and B

D. None of the above

# Question 7

The only significant difference in cash flows reporting between the public and private sectors is that the public sector reports two categories of *financing activities* whereas the private sector reports only one.

A. True

B. False

# Question 8

In which category of cash flows would a capital grant to another government be reported?

A. Cash flows from operating activities

B. Cash flows from noncapital financing activities

C. Cash flows from capital financing activities

D. Cash flows from investments

# Question 9

In which category of cash flows would interest revenue be reported?

A. Cash flows from operating activities

B. Cash flows from noncapital financing activities

C. Cash flows from capital financing activities

D. Cash flows from investing activities

# EXERCISE
## Proprietary Funds Statement of Cash Flows

Government Finance Officers Association

*EXAMPLE 1*

Local City

Proprietary Funds

For the Year Ended December 31, 2017

**Cash Inflows and Cash Outflows**

| | Enterprise Fund Water and Sewer |
|---|---|
| Capital contributions | $ 1,645,919 |
| Interest and dividends | 454,793 |
| Operating transfers to other funds | (290,000) |
| Principal paid on capital debt | (2,178,491) |
| Other operating receipts (payments) | (2,325,483) |
| Interest paid on capital debt | (1,479,708) |
| Payments to other funds for internal activity | (1,296,768) |
| Proceeds from capital debt | 4,041,322 |
| Purchase of capital assets | (4,194,035) |
| | |
| Receipts from customers | |
| *Inflows:* | |
| Receivable (beginning of period) | 17,684,312 |
| Revenues of period | 21,000,854 |
| Subtotal inflows: | 38,685,166 |
| *Netted against:* | |
| Receivable (end of period) | (27,284,966) |
| Net cash inflow | 11,400,200 |
| | |
| Payments to suppliers | |
| *Outflows:* | |
| Payable (beginning of period) | 734,929 |
| Expenses of period | 4,361,852 |
| Subtotal outflows: | 5,096,781 |
| *Netted against:* | |
| Payable (end of period) | (2,371,432) |
| Net cash outflow | 2,725,349 |
| | |
| Payments to employees | |
| *Outflows:* | |
| Payable (beginning of period) | 5,127,001 |
| Expenses of period | 3,319,267 |
| Subtotal outflows: | 8,446,268 |
| *Netted against:* | |
| Payable (end of period) | (5,086,213) |
| Net cash outflow | 3,360,055 |
| | |
| Cash and Cash Equivalents - beginning of the year | $ 8,724,308 |
| Cash and Cash Equivalents - end of year | |

*EXAMPLE 1*

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2017

***Create a Statement of Cash Flows using the Example 1 Cash Inflows and Cash Outflows on the following page.***

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| | $ |
| Net Cash Provided (Used) by Operating Activities (*A*) | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Net Cash Provided (Used) by Noncapital Financing Activities (*B*) | |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Net Cash Provided (Used) by Capital Financing Activities (*C*) | |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Net Cash Provided (Used) by Investing Activities (*D*) | |
| Net Increase (Decrease) in Cash and Cash Equivalents (*A+B+C+D=E*) | |
| Cash and Cash Equivalents - January 1, 2017 (*F*) | |
| Cash and Cash Equivalents - December 31, 2017 (*E+F*) | $ |

*EXAMPLE 1*

Local City

**Statement of Cash Flows EXERCISE - Answer Key**

Proprietary Funds

For the Year Ended December 31, 2017

| | Enterprise Fund Water and Sewer |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Other operating receipts (payments) | $ (2,325,483) |
| Payments to other funds for internal activity | (1,296,768) |
| Receipts from customers | 11,400,200 |
| Payments to suppliers | (2,725,349) |
| Payments to employees | (3,360,055) |
| Net Cash Provided (Used) by Operating Activities (*A*) | 1,692,545 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Operating transfers to other funds | (290,000) |
| Net Cash Provided (Used) by Noncapital Financing Activities (*B*) | (290,000) |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Capital contributions | 1,645,919 |
| Principal paid on capital debt | (2,178,491) |
| Interest paid on capital debt | (1,479,708) |
| Proceeds from capital debt | 4,041,322 |
| Purchases of capital assets | (4,194,035) |
| Net Cash Provided (Used) by Capital Financing Activities (*C*) | (2,164,993) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends | 454,793 |
| Net Cash Provided (Used) by Investing Activities (*D*) | 454,793 |
| Net Increase (Decrease) in Cash and Cash Equivalents (*A+B+C+D=E*) | (307,655) |
| Cash and Cash Equivalents - January 1, 2017 (*F*) | 8,724,308 |
| Cash and Cash Equivalents - December 31, 2017 (*E+F*) | **$ 8,416,653** |

*EXAMPLE 2*

State

Proprietary Funds

For the Year Ended December 31, 2017

**Cash Inflows and Cash Outflows**

*(expressed in thousands)*

| | Higher Education Student Services |
|---|---|
| Transfers in from other funds | $ 596,492 |
| Principal payments on long-term capital financing | (73,138) |
| Purchase of investment securities | (75,220) |
| Operating grants and donations received | 19,562 |
| Other operating receipts | 145,176 |
| Proceeds from sale of capital assets | 26,557 |
| Dividends and interest | 2,877 |
| Proceeds from long-term capital financing | 222,456 |
| Transfers out to other funds | (543,571) |
| Interest paid on capital debt | (93,623) |
| Proceeds from sale of investment securities | 44,048 |
| Acquisition of capital assets | (260,420) |
| | |
| Receipts from customers | |
| *Inflows:* | |
| Receivable (beginning of period) | 5,687,662 |
| Revenues of period | 4,172,485 |
| Subtotal inflows: | 9,860,147 |
| *Netted against:* | |
| Receivable (end of period) | (7,240,886) |
| Net cash inflow | 2,619,261 |
| | |
| Payments to suppliers | |
| *Outflows:* | |
| Payable (beginning of period) | 2,134,619 |
| Expenses of period | 3,354,123 |
| Subtotal outflows: | 5,488,742 |
| *Netted against:* | |
| Payable (end of period) | (4,332,959) |
| Net cash outflow | 1,155,783 |
| | |
| Payments to employees | |
| *Outflows:* | |
| Payable (beginning of period) | 3,760,230 |
| Expenses of period | 3,919,267 |
| Subtotal outflows: | 7,679,497 |
| *Netted against:* | |
| Payable (end of period) | (6,249,256) |
| Net cash outflow | 1,430,241 |
| | |
| Cash and Cash Equivalents - beginning of the year | $ 910,977 |
| Cash and Cash Equivalents - end of year | |

*EXAMPLE 2*

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2017

***Create a Statement of Cash Flows using the Example 2 Cash Inflows and Cash Outflows on the following page.***

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| | $ |
| Net Cash Provided (Used) by Operating Activities (*A*) | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Net Cash Provided (Used) by Noncapital Financing Activities (*B*) | |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Net Cash Provided (Used) by Capital Financing Activities (*C*) | |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Net Cash Provided (Used) by Investing Activities (*D*) | |
| Net Increase (Decrease) in Cash and Cash Equivalents (*A+B+C+D=E*) | |
| Cash and Cash Equivalents - January 1, 2017 (*F*) | |
| Cash and Cash Equivalents - December 31, 2017 (*E+F*) | $ |

*EXAMPLE 2*

State

**Statement of Cash Flows EXERCISE - Answer Key**

Proprietary Funds

For the Year Ended December 31, 2017

*(expressed in thousands)*

| | Higher Education Student Services |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Other operating receipts | $ 145,176 |
| Receipts from customers | 2,619,261 |
| Payments to suppliers | (1,155,783) |
| Payments to employees | (1,430,241) |
| Net Cash Provided (Used) by Operating Activities (*A*) | 178,413 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfers in from other funds | 596,492 |
| Operating grants and donations received | 19,562 |
| Transfers out to other funds | (543,571) |
| Net Cash Provided (Used) by Noncapital Financing Activities (*B*) | 72,483 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Principal payments on long-term capital financing | (73,138) |
| Proceeds from sale of capital assets | 26,557 |
| Proceeds from long-term capital financing | 222,456 |
| Interest paid on capital debt | (93,623) |
| Acquisition of capital assets | (260,420) |
| Net Cash Provided (Used) by Capital Financing Activities (*C*) | (178,168) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of investments and securities | (75,220) |
| Dividends and interest | 2,877 |
| Proceeds from sale of investment securities | 44,048 |
| Net Cash Provided (Used) by Investing Activities (*D*) | (28,295) |
| Net Increase (Decrease) in Cash and Cash Equivalents (*A+B+C+D=E*) | 44,433 |
| Cash and Cash Equivalents - January 1, 2017 (*F*) | 910,977 |
| Cash and Cash Equivalents - December 31, 2017 (*E+F*) | **$ 955,410** |

# Accounting for Fiduciary Funds

Government Finance Officers Association

# General Considerations

- Definition of *fiduciary funds*
  - Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs

- Three criteria
  1. Ongoing responsibility
  2. Third-party ownership
  3. Unavailability for government use

- GASB Statement No. 84, *Fiduciary Activities* changes the definition

# Trustee vs. Agent

- Agent
  - Short period/often no formal agreement
  - Purely custodial role
    - Receipt
    - Temporary investment
    - Remittance
- Trustee – long period
  - Long period/formal agreement
  - Managerial involvement
    - Investment
    - Administration

# Liabilities vs. Net Position

- Agency funds
  - All assets offset by liabilities
- Trust funds
  - Liability only if amount due to specific party

# Private-purpose Trust Funds

- Escheat property
  - Only resources expected to be remitted to property owners
    - Balance reported directly as revenue of fund to which the resources escheat
  - Liability only for amounts due to specific property owners

# Pension (and Other Employee Benefit) Trust Funds

- Trusts and *equivalent arrangements*
  - Employer contributions irrevocable
  - Plan assets dedicated to paying benefits in accordance with the terms of the plan
  - Plan assets legally protected from both the employer's creditors and the creditors of the entity that administers the plan

# Investment Trust Funds

- External investment pools
  - Criteria
    - Outside parties
    - Generation of income as objective
    - Sharing of investment earnings and losses
- Individual investment accounts
  - Investments held for specific outside parties

# Agency Funds

- No-commitment special assessment debt
  - Unremitted collections
- OPEB plans not equivalent to a trust
- Inappropriate use
  - Amounts received but not yet allocated
  - Amounts appropriated for expenditure-driven grants

# GASB Statement No. 84, Fiduciary Activities

- Issued in January 2017,
- Effective for reporting periods beginning after December 15, 2018 (12/31/19 FYE and after)
- Defines what are Fiduciary Activities
- Focus on *control of the assets* and *beneficiaries*
- Four Fiduciary Fund Types
  - Pension and other employee benefit trust funds
  - Investment trust funds
  - Private-purpose trust funds
  - *Custodial Funds - new*
    - Agency funds eliminated
    - Have a measurement focus
    - Assets not in trust

# Question 1

Which of the following would be reported as a fiduciary fund by a local government?

A. A state-administered pension plan for firefighters

B. An internal cash and investment pool

C. Both A and B

D. None of the above

# Question 2

A county has established an investment pool to provide for the combined management of $900 of local government resources and $300 of its own resources. What amount, if any, should be reported in an investment trust fund?

A. $1,200

B. $900

C. $300

D. $0

# Question 3

What amount should be reported as a liability to beneficiaries in a pension trust fund?

A. An amount equal to the assets reported in the fund

B. An amount equal to benefits actually due and payable to beneficiaries

C. An amount equal to the net present value of benefits earned to date by employees

D. Both B and C

# Question 4

Which of the following arrangements could be reported as an investment trust fund?

A. A public-entity risk pool

B. A local government investment pool that protects against loss

C. Internal pooled cash and investments

D. All of the above

E. None of the above

# Fiduciary Fund Financial Statements

Government Finance Officers Association

# Basic financial statements

- Statement of fiduciary net position
- Statement of changes in fiduciary net position

# Format

- Fund-type reporting
  - A fiduciary fund cannot be a major fund
- One column for each fund type
  - Pension (and other employee benefit) trust funds
  - Investment trust funds
  - Private-purpose trust funds
  - Agency funds (custodial funds)

# No Total Column

- Not necessary since data from fiduciary funds are not included in the government-wide financial statements

# Component Units

- Fiduciary-type component units are treated just like fiduciary funds
  - Included within the appropriate fund-type column

# Statement of Fiduciary Net Position

# Format

- Net position format

  Assets + deferred outflows

  Less: Liabilities + deferred inflows

  Net position

- Balance sheet format is not an option
- Presented in their relative order of liquidity
  - Classified presentation *not* an option

# Basic Format

| | Public Safety Employees' Pension Plan | Prison Canteen Private-purpose Trust Fund | Agency Fund |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 2,319,275 | $ 2,750 | $ 1,829,884 |
| Investments: | | | |
| Mutual funds | 11,366,039 | - | - |
| Certificates of deposit | - | 66,379 | 3,987 |
| U.S. Government securities | 13,678,594 | - | - |
| Corporate Bonds | 12,467,695 | - | - |
| Receivables | 16,135 | 921 | 50,890 |
| Total assets | 39,847,738 | 70,050 | 1,884,761 |
| **LIABILITIES** | | | |
| Payroll withholdings and employer contributions | - | - | 141,835 |
| Accounts payable | 17,061 | - | 604,550 |
| Refunds payable | 90,947 | - | - |
| Deposits | - | - | 1,128,594 |
| Due to other governments | - | - | 9,782 |
| Total liabilities | 108,008 | - | 1,884,761 |
| **NET POSITION** | | | |
| Net position held in trust for pension benefits and other purposes | $ 39,739,730 | $ 70,050 | |

# Statement of Fiduciary Net Position

- Only liabilities that are *due and payable*
  - All fiduciary funds pre-GASB 84. Only Pension/OPEB trusts post-GASB 84.
  - Not the unfunded actuarial accrued liability for postemployment benefits.
  - *Compel to pay* post-GASB 84 for other fiduciary funds.
- Single category of net position

| Fund type | Pension (and other employee benefit) trust funds | Investment trust funds | Private-purpose trust funds | Agency funds |
|---|---|---|---|---|
| Description of net position | *Assets held in trust for pension/other postemployment benefits* | *Assets held for pool participants* | *Assets held for [purpose of fund]* | Not applicable (assets = liabilities) |

# Statement of Changes in Fiduciary Net Position

# Basic Format – Statement of Changes in Fiduciary Net Position

| | Public Safety Employees' Pension Plan | Prison Canteen Private-purpose Trust Fund |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Employer | $ 1,609,992 | $ - |
| Plan members | 465,683 | - |
| Private contributions | - | 53,085 |
| Total contributions | 2,075,675 | 53,085 |
| Investment earnings: | | |
| Interest | 331,639 | 3,663 |
| Dividends | 1,693 | - |
| Net increase in the fair value of investments | 2,149,851 | 83 |
| Total investment earnings | 2,483,183 | 3,746 |
| Less investment expense | 97,585 | - |
| Net investment earnings | 2,385,598 | 3,746 |
| Total additions | 4,461,273 | 56,831 |
| **DEDUCTIONS** | | |
| Benefits | 2,688,530 | - |
| Refunds of contributions | 93,741 | - |
| Administrative expenses | 26,419 | - |
| Purchases by prisoners | - | 42,810 |
| Total deductions | 2,808,690 | 42,810 |
| Change in net position | 1,652,583 | 14,021 |
| Net position – beginning | 38,087,147 | 56,029 |
| Net position – ending | $ 39,739,730 | $ 70,050 |

# Statement of Changes in Fiduciary Net Position

- Exclusion of agency funds
  - In agency funds: assets = liabilities
    - No change in net position to report
- Changes in agency fund assets and liabilities reported elsewhere
  - Financial subsection of comprehensive annual financial report (CAFR)
- *Custodial Funds have a measurement focus and will be included in statement of changes in net position*

# Statement of Changes in Fiduciary Net Position (cont.)

- Additions and deductions
  - In contrast to revenues and expenses
- Investment-related costs treated as a reduction of additions

# Illustration

| | | |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Employer | $ | 1,496 |
| Plan members | | 284 |
| Private donations | | — |
| Total contributions | | 1,780 |
| Investment earnings: | | |
| Interest | | 849 |
| Net increase in the fair value of investments | | 398 |
| Total investment earnings | | 1,247 |
| Less investment expense | | 75 |
| Net investment earnings | | 1,172 |
| Total additions | | 2,952 |

# Question 1

Fiduciary funds should be reported by

A. Major fund

B. Fund type

C. Both A and B

# Question 2

Which of the following is a true statement concerning the presentation of fiduciary-type component units?

A. They should be reported in one or more separate columns at the far right of the fiduciary fund financial statements

B. They should be excluded from the fiduciary fund financial statements

C. They should be treated like a fiduciary fund of the primary government

# Question 3

Trust fund financial statements report the same components of *net position* as do other financial statements prepared using the economic resources measurement focus and the accrual basis of accounting.

A. True

B. False

# Question 4

Which of the following fund types would be included in the statement of changes in fiduciary net position?

A. Pension (and other employee benefit) trust funds
B. Private-purpose trust funds
C. Investment trust funds
D. Agency funds
E. All the above
F. A, B, and C

# Question 5

Investment-related costs should be reported as part of

A. Additions

B. Deductions

# Component Units

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# Background

- Financial accountability always traceable to elected officials
  - Core = P*rimary government*
  - Legally separate entities for which the primary government is financially accountable = C*omponent units*

Primary government

\+ Component units

Financial reporting entity

# Primary Government

- Every general purpose government
- Special purpose governments, if meet all of the following:
  - Separate legal status or equivalent
  - Separately elected governing body
  - Fiscal independence – substantive approval from another government not needed for:
    - Budget
    - Tax levies, rates, and charges
    - Issuance of bonded debt

# Identifying Component Units

- Financial accountability
- Misleading to exclude

# Financial Accountability

- Combination of primary and secondary factors
  - Fiscal dependence + Financial benefit or burden relationship
  - Board appointment + Financial benefit or burden relationship
  - Board appointment + Ability to impose will

# Fiscal Dependence

- Substantive approval needed for
  - Budget
  - Tax levies, rates, and charges
  - Issuance of bonded debt

# Financial Benefit or Burden

- Benefit
  - Excluding exchange and exchange-like transactions
  - Excluding residual claim to assets upon dissolution
- Burden
  - Including tax-increment financing

# Board Appointment

- Appointment includes:
  - Ex officio service
  - Board functioning de jure for both
  - Appointments by appointees
- Also needed:
  - Substantive appointment authority
  - Voting majority
  - Continuing appointment authority *or* ability to unilaterally abolish unit

# Ability to Impose Will

- Remove board members at will
- Modify or approve the budget
- Modify or approve rate or fee changes
- Veto, overrule, or modify decisions
- Appoint, hire, reassign, or dismiss persons responsible for day-to-day operations
- Other similar conditions

# Misleading to Exclude

- Based on nature and significance of relationship with primary government
  - Organizations closely financially related to or financially integrated with the primary government
- Separate tax-exempt organizations
  - Direct benefit
  - Access to resources
  - Significance (individually)

# Clarifications

- Fiduciary funds always reported as such, regardless
- An entity may qualify as a potential component unit for more than one primary government, however
  - An entity can only be reported as a component unit of one primary government

# Question 1

Conceptually, the scope of the financial reporting entity is based on

A. Financial interrelatedness

B. Financial oversight

C. Accountability of elected officials

D. Assumption of risks and benefits

# Question 2

Which of the following always would qualify as a *primary government*?

A. County

B. Municipality

C. School district

D. All of the above

E. Both A and B

# Question 3

To qualify as a primary government, a special-purpose government must

A. Have separate legal status

B. Have a separately elected governing body

C. Be fiscally independent

D. All of the above

E. Any of the above

# Question 4

Which of the following would be evidence of a relationship of financial benefit or burden?

A. The primary government is the largest single customer of a potential component unit

B. The primary government is entitled to the assets of a potential component unit should it dissolve

C. The primary government uses tax-increment financing to support the potential component unit

D. All of the above

# Question 5

Which of the following is evidence of fiscal dependence?

A. Another government is responsible for determining the unit's compliance with a state balanced-budget law

B. The law prohibits all units of its type from issuing long-term debt

C. Another government must approve the unit's budget

D. All of the above

# Question 6

If the board members of a primary government automatically serve as board members for a potential component unit, the “board appointment” criterion would be met, even though the primary government had not literally “appointed” the unit’s board.

A. True

B. False

# Question 7

It is possible for a potential component unit to *meet the criteria for inclusion* as a component unit of more than one primary government.

A. True

B. False

# Question 8

It is possible for a single legally separate entity *to be reported* as a component unit of more than one primary government.

A. True

B. False

# Question 9

To meet the “board appointment criterion,” the primary government must have

A. Continuing appointment authority

B. The ability to unilaterally abolish the unit

C. Either A or B

D. Both A and B

# Funds, Component Units, and Government-wide Financial Reporting

Government Finance Officers Association

# Two Types of Accountability

- Fiscal accountability
  - Focus = Compliance
- Operational accountability
  - Focus = Use and availability of resources to meet objectives
    - Current period
    - Foreseeable future

# Governmental Financial Reporting Model

- Fund financial statements
  - Fiscal accountability
- Government-wide financial statements
  - Operational accountability

# Three Sets of Fund Financial Statements

- Governmental fund financial statements
- Proprietary fund financial statements
- Fiduciary fund financial statements

# Government-wide Financial Statements

- Primary government
  - Governmental activities
  - Business-type activities
  - Total

# Government-wide Financial Statements

| | |
|---|---|
| Governmental Activities | • Governmental Fund Financial Statements<br>  • General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Permanent Funds<br>• Internal Service Funds that primarily serve governmental funds |
| Business-type Activities | • Enterprise Fund Financial Statements<br>• Internal Service Funds that primarily serve enterprise funds |
| Fiduciary Funds | • Not Reported |

# Presentation of Component Units

- Based on relationship with primary government
  - Integral part of the primary government?
    - Treat component unit's funds as funds of the primary government = *Blending*
      - Exception = Reclassify general fund of the blended component unit as a special revenue fund
  - Not an integral part of the primary government?
    - Report together with but separately from the primary government
      - One or more columns to the right of the primary government's total column
- Not applicable to fiduciary-type component units
  - Final result, however, equivalent to "blending"

# How Funds are Combined for Blending

| | Separate reporting | | Reclassification | Reporting entity |
|---|---|---|---|---|
| **Fund type** | **Primary government (as legally defined)** | **Blended component unit** | **Funds of blended component unit** | **Primary government** |
| General fund | 1 | 1 | -1 | 1 |
| Special revenue | 2 | 1 | +1 | 4 |
| Debt service | 1 | 1 | | 2 |
| Capital projects | 1 | | | 1 |
| Enterprise | 2 | | | 2 |
| Total | 7 | 3 | 0 | 10 |

# Criteria for Blending

- Any of the following situations:
  - Substantively the same governing body + financial benefit or burden
  - Substantively the same governing body + operational responsibility
  - Service or benefit (almost) exclusively to the primary government
  - Total debt repayable (almost) entirely from resources of the primary government
  - Primary government is sole corporate member of legally separate not-for-profit corporation
- Exclusion = Legally separate tax-exempt organizations
  - Discretely presented *(except if sole corporate member)*

# Three Options for Discretely Presenting Component Units

- Option 1
  - Single column for all units
- Option 2
  - Separate columns for each major unit
  - Single column for nonmajor units
- Option 3
  - Separate columns for each unit

# Assumptions

- Five component units
  - Two major
    - Fund 1 = $50
    - Fund 2 = $50
  - Three nonmajor
    - Fund 3 = $5
    - Fund 4 = $5
    - Fund 5 = $5
  - Total = $115

# Option 1: Single Column

| Primary government | | | |
|---|---|---|---|
| **Governmental activities** | **Business-type activities** | **Total** | **Component units** |
| $500 | $100 | $600 | $115 |

# Option 2: Separate Columns for Major Component Units

| Primary government | | | Component units | | |
|---|---|---|---|---|---|
| | | | Major | | |
| Governmental activities | Business-type activities | Total | Unit 1 | Unit 2 | Non-Major |
| $500 | $100 | $600 | $50 | $50 | $15 |

# Option 3: Separate Columns for Each Component Unit

| Primary government | | | Component units | | | | |
|---|---|---|---|---|---|---|---|
| Governmental activities | Business-type activities | Total | Unit 1 | Unit 2 | Unit 3 | Unit 4 | Unit 5 |
| $500 | $100 | $600 | $50 | $50 | $5 | $5 | $5 |

# Source of Data for Discretely Presented Component Units

- Government-wide financial statements of those component units
  - Entity-wide total column
    - Primary government + discretely presented component units

# Detail on Major Component Units

- Within basic financial statements
  - Separate column
  - Combining statements
    - Included within basic financial statements
  - Condensed financial data
    - Disclosed in notes

# Major Component Units

- Criteria for identifying *major* units:
  - Type of services it provides to citizens
  - Engaged in significant transactions with the primary government
  - Significant financial benefit or burden to primary government

# Different Fiscal Year-ends

- Option 1
  - Most recently completed component unit fiscal year
- Option 2
  - Next component unit fiscal year (if fiscal year-end within 3 months of fiscal year-end of the primary government)

# Question 1

Which financial statements are especially well suited for demonstrating fiscal accountability?

A. Government-wide financial statements

B. Fund financial statements

# Question 2

A primary government has two special revenue funds. Its single blended component unit has a general fund and three special revenue funds. How many special revenue funds would be reported by the financial reporting entity?

A. Two

B. Three

C. Five

D. Six

# Question 3

The “(almost) exclusive service or benefit” criterion is only applicable in situations where the primary government and a component unit share substantively the same board.

A. True

B. False

# Question 4

What is the minimum number of columns that would need to be presented on the face of the financial statements for seven discretely presented component units if just two were considered to be major units?

A. One

B. Three

C. Seven

# Question 5

From which column of a component unit's government-wide financial statements should data be drawn for inclusion in the financial statements of the financial reporting entity?

A. Primary government total column

B. Entity-wide total column

C. Either A or B

# Question 6

Which of the following presentations could be used to present required information on individual major discretely presented component units?

A. Separate columns in the financial statements
B. Condensed financial data in the notes
C. Combining statements in the financial subsection of the comprehensive annual financial report (CAFR)
D. All of the above
E. Both A and B

# Question 7

The primary government's fiscal year ends on September 30, 2020, while its component unit's fiscal year ends on December 31, 2020. As of what date should component unit data be presented in the financial statements of the reporting entity?

A. December 31, 2019

B. December 31, 2020

C. September 30, 2020

D. Either A or B

# Question 8

Legally separate tax-exempt organizations that qualify as component units should be

A. Blended

B. Discretely presented

C. Either A or B depending upon the circumstances

# Question 9

Which of the following columns would be reported in government-wide financial statements?

A. Governmental activities

B. Business-type activities

C. Fiduciary activities

D. Both A and B

E. All of the above