

Don't Be Scared – The Treats of Government Accounting

October 31, 2024

Accounting Equation



Traditional

Assets = Liabilities + “Residual Resources”

or

Assets – Liabilities = “Residual Resources”

Government

Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Net Position/Fund Balance

or

Assets + Deferred Outflows of Resources - Liabilities - Deferred Inflows of Resources = Net Position/Fund Balance

What is a Deferred Outflow of Resources?



- Outflow of resources
 - Consumption of net assets* applicable to the current or earlier period
 - Net Assets = Total assets minus total liabilities
- Deferred outflow of resources
 - Consumption of net assets applicable to a future period
 - Example: Grant payments where only the time requirement is not met
 - Debit on statement of financial position rather than debit on statement of resource flows
 - Delays recognition of outflow

* Net assets does *not* equal net position, as the latter includes the effects of deferred resource flows

What is a Deferred Inflow of Resources?



- Inflow of resources
 - Acquisition of net assets applicable to the current or earlier period
- Deferred inflow of resources
 - Acquisition of net assets applicable to a future period
 - Example: Grant receipts where only the time requirement is not met
 - Credit on statement of financial position rather than credit on statement of resource flows
 - Delays recognition of inflow

Unique Features of Governmental Accounting



- Fund accounting - focus on accountability over dedicated resources
- More than one measurement focus
 - Business-type operations
 - Governmental operations
- Two “levels” of reporting
 - Government-wide
 - Fund
- Budgetary reporting

Unique Features of Governmental Accounting



- Different financial objectives for different types of operations
 - Governmental (taxes and grants)
 - Business-type (fees and charges)
- Ultimate goal of accounting – demonstrate accountability

Governmental Operations



- Model
 - Use taxing power to raise resources, as needed, to provide services
 - No relationship between what an individual pays and receives
 - Primarily supported by taxes, grants, and similar revenue sources
- Key environmental factor
 - Resources can be generated through future taxes as well
- Financial objective
 - Ensure that existing resources plus revenues are sufficient to cover near-term outflows
 - Near-term outflows = expenditures
 - Focus on providing information useful for making budgetary decisions and demonstrating budgetary accountability

Business-Type Operations



- Model
 - Generate revenues by providing goods and services to customers
 - Relationship between what an individual pays and receives
 - Primarily supported by fees and charges
- Key environmental factor
 - Point of sale provides unique opportunity for generating revenue
- Financial reporting objectives
 - Demonstrate accountability
 - Demonstrate whether revenues generated from customers are sufficient to cover the cost of the related goods and services, regardless of when the related bills are paid
 - Cost = expense
- Public sector
 - Revenues may only partially recover cost
 - An activity may be subsidized to promote the public good

Fund Accounting



- Official definition
 - Accounting entity with a set of self-balancing accounts that record cash and other financial resources together with their related liabilities and residual balances, and their changes. They are segregated for the purpose of carrying out specific activities or attaining certain objectives. (NCGA Statement 1)
- Limitations on resource use
 - Ensures compliance (accounting)
 - Demonstrates compliance (financial reporting)
- Practical necessity to accommodate differences in measurement focus

Three Categories of Funds in Government



- Governmental funds
 - Generally used for tax- and grant-supported activities
- Proprietary funds
 - Used to report business-type activities
- Fiduciary funds
 - Resources held in a trustee or custodial capacity
 - Belong to others outside of the government, and can't be used to support the government's own activities

Fund Types: Governmental Funds



- General fund - Government's main operating fund
- Special revenue funds - Specific revenue sources restricted or committed to specific uses, other than for debt service or capital projects
 - Examples: grants; motor fuel tax
- Debt service funds - Account for the repayment of debt
- Capital projects funds - Account for resources used for all, or the most significant capital acquisitions, and construction and development projects
- Permanent funds - Resources restricted to being invested for income and principal amounts cannot be spent
 - Example: Endowments

Fund Types: Proprietary Funds



- Enterprise funds – Accounts for services provided on a full or partial cost-recovery basis to parties outside of the government
 - Cost recovery through fees and charges
 - Cost may be subsidized for public good
 - Examples: Mass transit; utilities; public stadium; golf course
- Internal service funds – Normally used to allocate certain costs to other funds or departments within the government on a cost-reimbursement basis
 - Cost-reimbursement basis through fees and charges
 - Should break even *over time*
 - Examples: Motor pool; data processing; IT; risk management

Fund Types: Fiduciary Funds



- Trust funds
 - Pension and other postemployment benefits trust funds
 - Investment trust funds
 - Private-purpose trust funds
- Custodial funds

Measurement Focus and Basis of Accounting



- Business-type operations
 - Economic resources measurement focus
 - ▶ All assets, liabilities, and deferred outflows/inflows of resources
 - ▶ Difference = net position
 - ▶ All changes in economic position during the period affecting net position
 - Accrual basis of accounting
- Governmental operations
 - Current financial resources measurement focus
 - ▶ Only assets, liabilities, and deferred outflows/inflows of resources relevant to near-term liquidity
 - ▶ Difference = fund balance
 - ▶ Only changes in financial position during the period affecting fund balance
 - Modified accrual basis of accounting

Basis of Accounting



Accrual

- Transactions and events are recognized when they occur, regardless of when cash is received or disbursed
- Recognize revenue when earned and measurable
- Recognize expense when liability is incurred

Modified Accrual

- Starting point = Accrual
 - When the underlying transaction or event occurs
- Modify – when specifically required in GAAP – only to the extent that near-term liquidity is affected
 - Revenue recognized only if available to make payments soon after year-end
 - Expenditures recognized only if payments normally are made during the period or soon after year-end
- Practical result
 - Less aggressive recognition than accrual basis
 - More aggressive recognition than cash basis

Measurement Focus and Basis of Accounting Application



Economic resources measurement focus + accrual basis of accounting

- Government-wide financial statements
- Proprietary fund financial statements
- Fiduciary fund financial statements

Current financial resources measurement focus + modified accrual basis of accounting

- Governmental fund financial statements

Key Differences



Four major differences between a statement of resource flows presented using the economic resources measurement focus and a statement of resource flows presented using the current financial resources measurement focus that involve the way the following are reported:

1. Issuance of long-term debt
2. Repayment of principal of long-term debt
3. Capital outlay
4. Consumption of capital assets



1. Issuance of Long-Term Debt

Net effect on statement of financial position?

- Economic resources? No

	<u>DR</u>	<u>CR</u>
Cash	\$100	
Bonds payable		\$100
(Issuance of long-term debt)		

- Current financial resources? Yes

	<u>DR</u>	<u>CR</u>
Cash	\$100	
Other financing source – bond issuance		\$100
(Issuance of long-term debt)		

2. Repayment of Principal on Long-Term Debt



Net effect on statement of financial position?

- Economic resources? No

Bonds payable

Cash

(Repayment of principal of long-term debt)

<u>DR</u>	<u>CR</u>
\$100	
	\$100

- Current financial resources? Yes

Expenditures – debt service principal

Cash

(Repayment of principal of long-term debt)

<u>DR</u>	<u>CR</u>
\$100	
	\$100

3. Capital Outlay

Net effect on statement of financial position?

- Economic resources? No

Equipment
Cash
(Purchase of equipment)

<u>DR</u>	<u>CR</u>
\$100	\$100

- Current financial resources? Yes

Expenditures – capital outlay
Cash
(Purchase of equipment)

<u>DR</u>	<u>CR</u>
\$100	\$100



4. Consumption of Capital Assets

Net effect on statement of financial position?

- Economic resources? Yes

Expense – depreciation
Accumulated depreciation
(Depreciation of equipment)

<u>DR</u>	<u>CR</u>
\$10	\$10

- Current financial resources? No

- ▶ The outflow was recognized when the asset was purchased (prior slide, bottom entry)

Report on statement of resource flows?

Item	Economic resources?	Current financial resources?
Issuance of long-term debt	No	Yes
Repayment of the principal of long-term debt	No	Yes
Capital outlay	No	Yes
Depreciation/amortization	Yes	No

Net Effect on Resource Flows Over Time

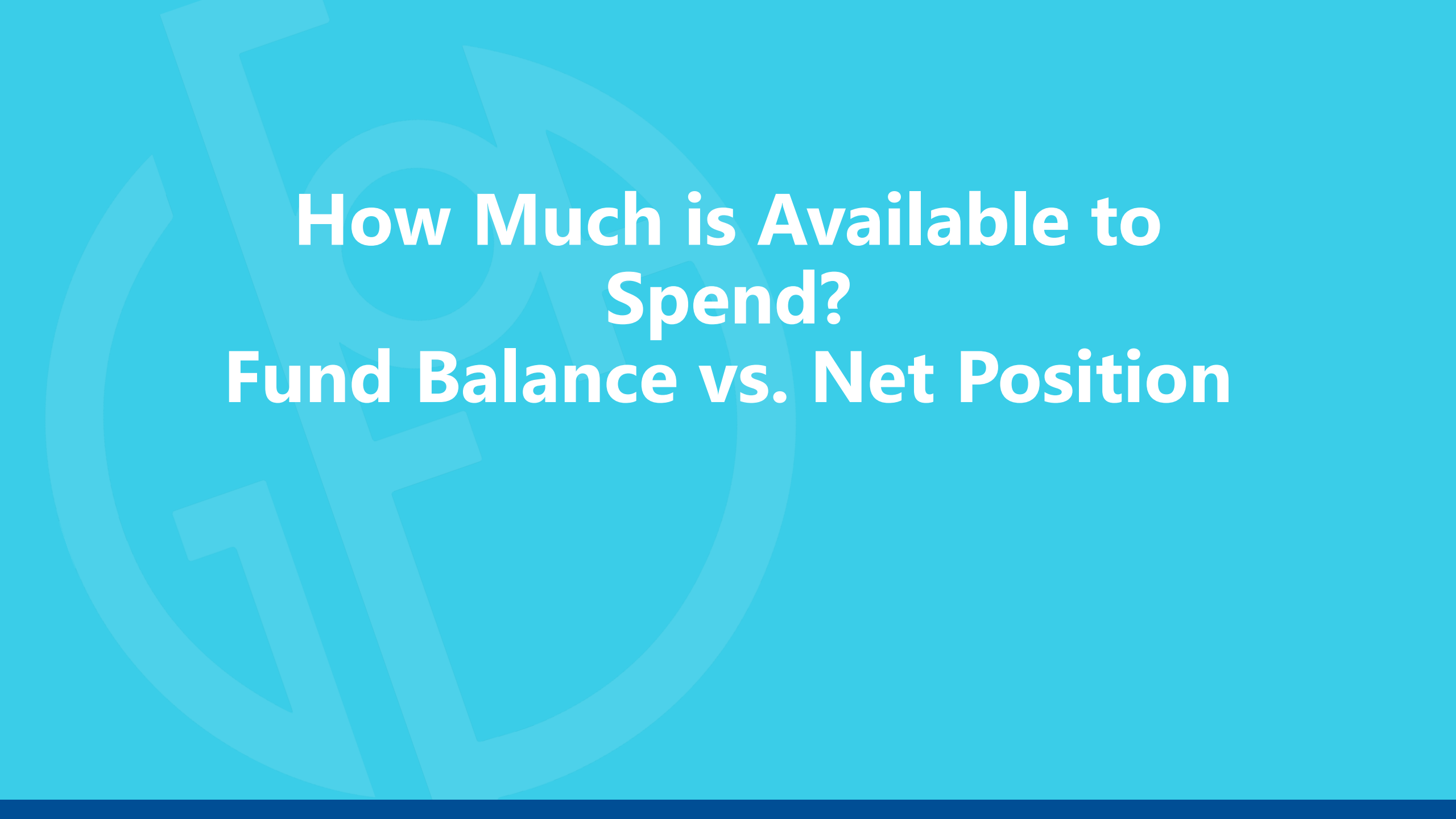


Item	Economic resources?	Current financial resources?
<i>Debt Issuance:</i>		
Issuance of long-term debt	\$0	\$100
Repayment of the principal of long-term debt	\$0	(\$100)
<i>Net Effect:</i>	\$0	\$0
<i>Capital outlays:</i>		
Capital outlay	\$0	(\$100)
Depreciation/amortization	(\$100)	\$0
<i>Net effect:</i>	(\$100)	(\$100)
Net effect – overall	(\$100)	(\$100)

Why Are Governmental Funds Different?



- Focus is on providing information useful for making budgetary decisions
 - Balanced budget = Focus on near-term liquidity
 - Will existing resources + inflows be sufficient to cover outflows?



**How Much is Available to
Spend?
Fund Balance vs. Net Position**

Fund Balance



- Five categories
- Basis for categorization
 - Constraints on how existing resources of the fund can be spent
 - The sources of those constraints
- Presented from most constraining to least constraining

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

Unrestricted

Net Position



- Three categories
- Classification based on accessibility
- Presented from most restricted to least restricted
 1. Net investment in capital assets
 2. Restricted
 3. Unrestricted



Financial Statements

Government-wide Financial Reporting



- Fund statements
 - Focus is on financial accountability
 - Detail needed
 - Often short-term
- Government-wide financial statements
 - Focus is on operational accountability
 - “Big picture”
 - Long-term

Fund Financial Statements



Governmental Funds

Balance Sheet

Statement of Revenues, Expenditures and Changes in Fund Balances

Focus – Major Funds

Proprietary Funds

Statement of Net Position

Statement of Revenues, Expenses and Changes in Net Position

Statement of Cash Flows

Focus – Major Enterprise Funds, Internal Service Funds Fund Type

Fiduciary Funds

Statement of Fiduciary Net Position

Statement of Changes in Fiduciary Net Position

Focus – Fund Type

Scope of Government-wide Statements



Governmental Activities

- Governmental Fund Financial Statements
- Internal Service Funds that primarily serve governmental funds

Business-type Activities

- Enterprise Fund Financial Statements
- Internal Service Funds that primarily serve enterprise funds

Fiduciary Funds

- *Not Reported*



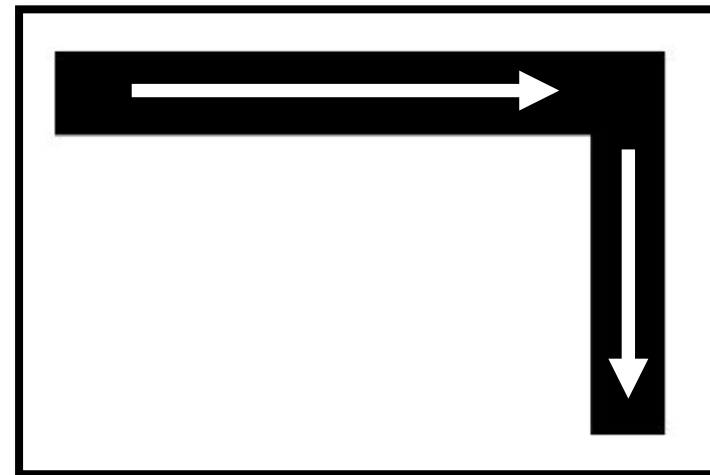
NAME OF GOVERNMENT
Statement of Net Position
June 30, 2027

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Urban Renewal Agency	Cable Television
ASSETS					
Cash and cash equivalents	\$ 20,231,362	\$ 3,699,844	\$ 23,931,206	\$ 195,647	\$ 462,992
Investments	22,119,677	2,136,642	24,256,319	-	-
Restricted assets-customer deposits	-	30,715	30,715	-	-
Receivables (net of allowance for uncollectibles)	13,015,337	4,203,602	17,218,939	3,000	273,328
Intergovernmental receivable	1,709,483	877,295	2,586,778	-	-
Lease receivable	301,773	-	301,773	-	-
Due from component unit	32,615	-	32,615	-	-
Internal balances	(272,321)	272,321	-	-	-
Inventories	829,294	117,581	946,875	-	-
Prepays	86,551	-	86,551	-	2,266
Capital assets not being depreciated	59,937,290	7,275,183	67,212,473	6,601,630	-
Capital assets, net of accumulated depreciation/ amortization	227,356,743	32,703,094	260,059,837	-	206,426
Total assets	345,347,804	51,316,277	396,664,081	6,800,277	945,012
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	8,176,794	90,303	8,267,097	-	-
OPEB related	2,006,240	8,435	2,014,675	-	-
Deferred charge on refunding	726,762	-	726,762	-	-
Total deferred outflows of resources	10,909,796	98,738	11,008,534	-	-

Government-wide Statements



- Statement of net position
- Statement of activities
 - Expenses presented before revenues
 - Reflects public-sector focus on service rather than profit
 - Focus on net program cost
 - Expenses matched against “program revenue” to demonstrate the degree to which the program is self-financing



Statement of Net Position

NAME OF GOVERNMENT
Statement of Net Position
June 30, 2027

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Statement of activities



NAME OF GOVERNMENT
Statement of Activities
For the Year Ended June 30, 2027

	Expenses	Program Revenues			Net (Expense) Revenue and Changes		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Functions/Programs:							
Primary government:							
Governmental activities:							
General government	\$ 32,216,739	\$ 7,953,182	\$ -	\$ 241,967	\$ (24,021,590)	\$ -	\$ (24,021,590)
Public safety	59,935,190	14,620,151	3,552,551	130,171	(41,632,317)	-	(41,632,317)
Highways and streets	33,882,810	9,296,585	874,480	2,611,220	(21,100,525)	-	(21,100,525)
Sanitation	10,909,555	2,682,219	-	-	(8,227,336)	-	(8,227,336)
Culture and recreation	17,678,163	3,300,105	3,705,651	-	(10,672,407)	-	(10,672,407)
Community development	8,190,154	67,703	6,575,657	-	(1,546,794)	-	(1,546,794)
Interest	3,246,111	-	-	-	(3,246,111)	-	(3,246,111)
Total governmental activities	166,058,722	37,919,945	14,708,339	2,983,358	(110,447,080)	-	(110,447,080)
Business-type activities:							
Water	8,359,864	9,454,008	10,967	3,615	-	1,108,726	1,108,726
Transit	5,974,954	930,131	390,474	1,174,511	-	(3,479,838)	(3,479,838)
Total business-type activities	14,334,818	10,384,139	401,441	1,178,126	-	(2,371,112)	(2,371,112)
Total primary government	\$ 180,393,540	\$ 48,304,084	\$ 15,109,780	\$ 4,161,484	(110,447,080)	(2,371,112)	(112,818,192)

Statement of activities



	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		Total
	Governmental Activities	Business-type Activities	
General Revenues and transfers			
General revenues:			
Property taxes	45,060,105	-	45,060,105
Sales taxes	44,368,865	-	44,368,865
Franchise taxes	1,537,833	-	1,537,833
Grants and contributions not restricted to specific programs	1,753,982	-	1,753,982
Unrestricted investment earnings	3,973,515	287,010	4,260,525
Payments in lieu of taxes	2,345,545	-	2,345,545
Gain on sale of capital assets	22,276	-	22,276
Miscellaneous	2,596,367	-	2,596,367
Transfers	(3,728,209)	3,728,209	-
Total general revenues and transfers	97,930,279	4,015,219	101,945,498
Change in net position	(12,516,801)	1,644,107	(10,872,694)
Net position - beginning of year, as previously presented	157,938,679	32,483,492	190,422,171
Restatement	(620,087)	(11,109)	(631,196)
Net position - beginning of year, as restated	157,318,592	32,472,383	189,790,975
Net position - end of year	\$ 144,801,791	\$ 34,116,490	\$ 178,918,281



Budgetary Reporting

Budgetary Reporting for Governments



- *Always required* in conjunction with basic financial statements
 - General fund
 - Major special revenue funds
- *Additional requirements* for governments that prepare an annual comprehensive financial report (ACFR)
 - All governmental funds with an annual (or biennial) appropriated budget



GFOA

2025

WASHINGTON, DC



Save the Date
June 29–July 2



2024 Governmental

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