

# Accounting Academy

August 2026 | 24 CPE Credits

Day 1

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# Introduction & Overview

# Course Agenda – Day 1



- The governmental environment and its impact
- Generally accepted accounting principles (GAAP) for state and local governments
- Funds and fund types
- Measurement focus and basis of accounting
- Financial statement elements

# Course Agenda – Day 2



- Categories of transactions and other events
- Governmental fund revenues
- Governmental fund expenditures
- Other financing sources and uses
- Governmental fund financial statements
- Proprietary funds

# Course Agenda – Day 3



- Proprietary fund financial statements
- Fiduciary funds
- Fiduciary fund financial statements
- Component units
- Funds, component units, and government-wide reporting
- Interfund activity
- Government-wide financial statements

# Course Agenda – Day 4



- Government-wide financial statements (continued)
- Note Disclosures to the Basic Financial Statements
- The financial statement audit
- Management's discussion and analysis (MD&A)
- Required Supplementary Information, other than MD&A
- Information in the Annual Comprehensive Financial Report (ACFR)
  - Overview
  - Introductory section, including the letter of transmittal (LOT)
  - Combining and individual fund statements
  - Statistical section

# Welcome and Introductions



Name

Government

Years in government

What are you most interested in learning in this class?

The background is a solid light blue color. Overlaid on the left side is a large, faint, semi-transparent graphic. It consists of a circular gear-like shape with a dollar sign (\$) inside it, oriented diagonally.

# **The Government Environment & Its Impact**

# Stewardship for a Government's Financial Condition



- Two parties responsible for assuring proper internal control over the use of public monies, and maintaining accurate and transparent financial reporting
  - Management – *Primary* responsibility for producing the financial statements, and maintaining proper internal control within the organization
  - Governing body – *The ultimate steward*
    - Ultimately responsible for assuring internal control and financial reporting
- Independent external auditors – Provide reasonable assurance as to whether financial statements conform to GAAP in all materials respects, for the benefit of the external users of the financial statements

# Unique Aspects of the Governmental Environment



- Different financial objectives for different types of operations
  - Business-type
  - Governmental (tax-supported)
- Ultimate goal of accounting – demonstrate 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

# Business-Type Operations vs. Private Sector Business



- Private sector
  - Revenues must completely recover cost
    - Otherwise “out of business”
- Public sector
  - Revenues may only partially recover cost
    - An activity may be subsidized to promote the public good

# 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 *revenues are sufficient to cover near-term outflows*
    - Near-term outflows = *expenditures*
      - Distinguish from actual cash outflows which are *disbursements*

# Compare and Contrast



- Business-type operations
  - Objective: *Cover cost (expense)*
  - Focus: *Ultimate impact*
- Governmental operations
  - Objective: *Cover near-term outlay (expenditure)*
  - Focus: *Near-term impact*

# Special Emphasis on Accountability



- Limitations on use of resources come from
  - Higher levels of government
    - Grants
  - Other resource providers
    - Bondholders
  - Legislative body
    - Appropriated budget
- Challenge
  - How to ensure and demonstrate compliance

# Unique Features of Governmental Accounting



- Fund accounting
  - Focus on accountability over dedicated resources
- More than one measurement focus
  - Business-type operations
  - Governmental operations
- Budgetary reporting

# Definition of “Fund”



- 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 on specific activities or attaining certain objectives. (NCGA Statement 1)

# Fund Accounting



- Limitations on resource use
  - Ensures compliance (accounting)
  - Demonstrates compliance (financial reporting)
- Practical necessity to accommodate differences in measurement focus

# Measurement Focus

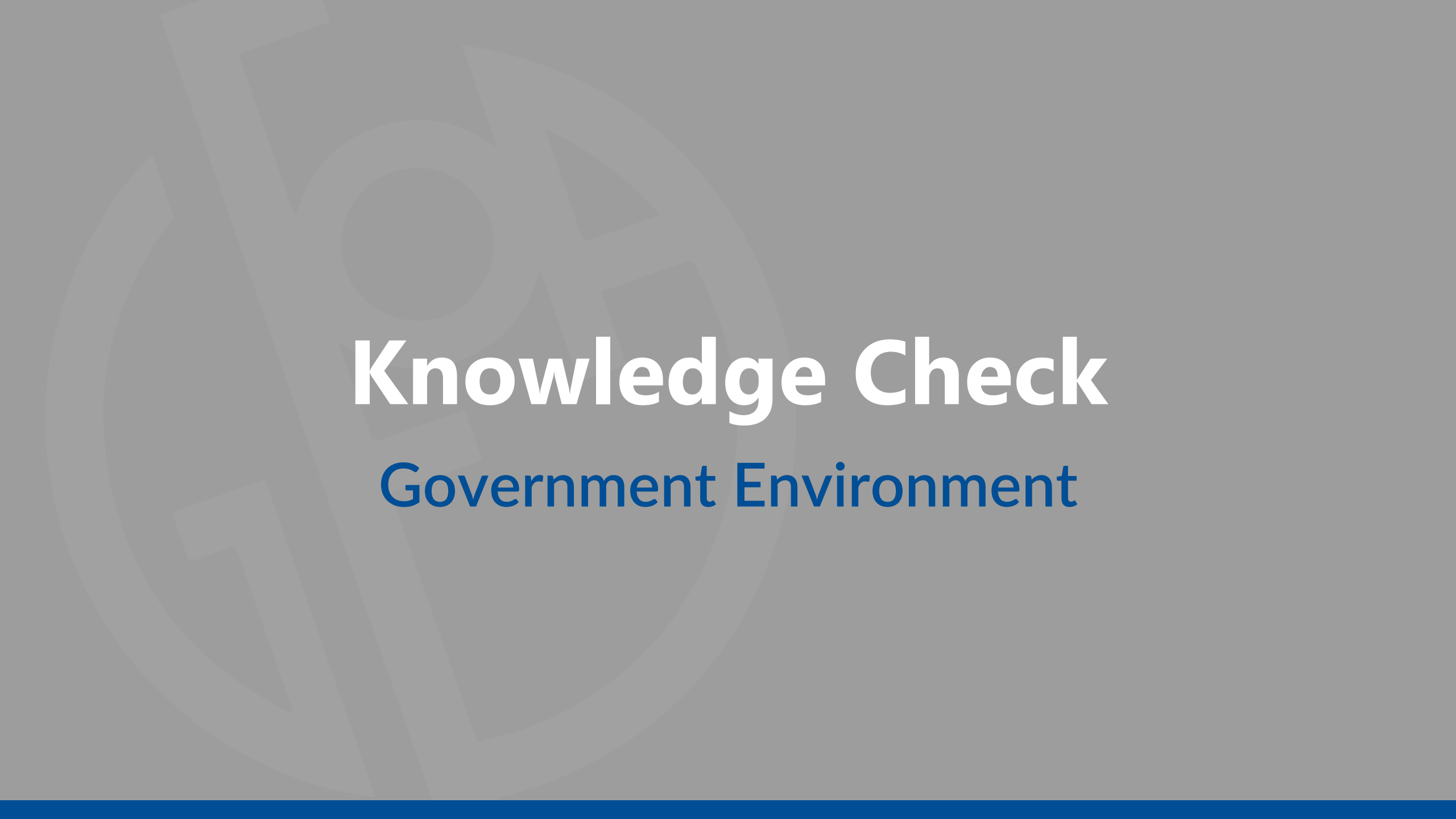


- Business-type operations
  - Traditionally *all* permanent accounts
    - Difference = *net position*
  - *All* changes affecting *net position*
- Governmental operations
  - *Only* permanent accounts relevant to near-term liquidity
    - Difference = *fund balance*
  - *Only* changes affecting *fund balance*

# Budgetary Reporting for Governments



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



# Knowledge Check

Government Environment

# Question 1

Which of the following is a true statement about the public-sector environment as it relates to accounting and financial reporting?

- A. Different operations of a government may have different financial objectives
- B. There is a heightened focus on accountability
- C. Both A and B
- D. None of the above

## Question 2

Which of the following is a measure of cost?

- A. Expense
- B. Expenditure
- C. Both A and B
- D. None of the above

## Question 3

In which of the following situations would individuals normally pay based upon what they individually receive?

- A. Governmental operations
- B. Business-type operations
- C. Both A and B
- D. None of the above

## Question 4

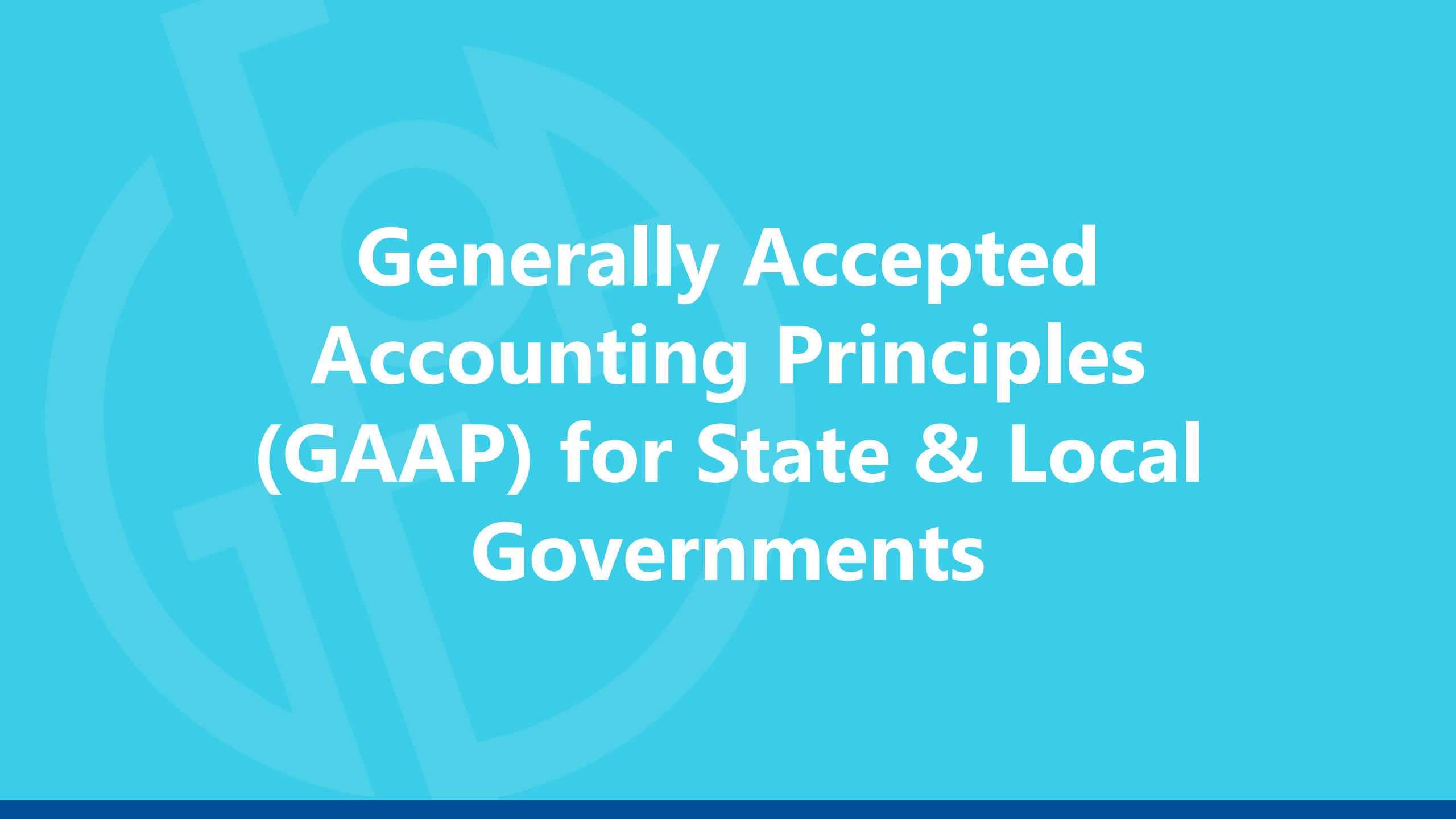
Which of the following is concerned primarily with the near-term impact of events and transactions?

- A. Governmental operations
- B. Business-type operations
- C. Both A and B
- D. None of the above

## Question 5

Budgetary reporting would always be required for which of the following?

- A. The general fund
- B. Any governmental fund
- C. Both A and B
- D. None of the above



# **Generally Accepted Accounting Principles (GAAP) for State & Local Governments**

# What is GAAP?



- Generally accepted accounting principles (GAAP)
  - Nationally recognized standards that govern *general purpose external* financial reporting
    - Users include:
      - Citizens
      - Legislative and oversight bodies
      - Investors and creditors

# Legal Authority to Set Financial Reporting Standards



- Securities and Exchange Commission (SEC) has authority to set financial reporting standards for publicly traded companies
  - Only state and local governments that issue municipal bonds are subject to SEC authority, and even then, only to its anti-fraud provisions
    - Exception: Federal Data Transparency Act (FDTA) assigned SEC responsibility to set standards for machine-readable financial reporting by governments.

# Legal Authority to Set Financial Reporting Standards (cont.)



- American Institute of Certified Public Accountants' *Code of Professional Conduct* (AICPA Code) prevents auditors from giving an unmodified (“clean”) opinion if financial statements materially depart from standards set by the appropriate authoritative standard-setting body:
  - Private-sector businesses and not-for-profit organizations – Financial Accounting Standards Board (FASB);
  - State and local governments – Governmental Accounting Standards Board (GASB); and
  - Federal government – Federal Accounting Standards Advisory Board (FASAB)
- AICPA Code provisions often are enforceable as a matter of regulation by the state boards of accountancy, which license independent auditors

# Development of GAAP



- Private sector (including not for profit)
  - Committee on Accounting Procedures
  - Accounting Principles Board
  - Financial Accounting Standards Board (FASB)
    - Assisted by advisory council

# Development of GAAP (cont.)



- State and local governments
  - National Committee on Municipal Accounting
  - National Committee on Governmental Accounting
  - National Council on Governmental Accounting
  - **Governmental Accounting Standards Board (GASB)**
    - Assisted by advisory council
- Federal government
  - Federal Accounting Standards Advisory Board (FASAB)

# Development of GAAP (cont.)



- Financial Accounting Foundation (FAF)
  - Oversight over GASB and FASB
  - Select and appoint board members for GASB and FASB (and advisory councils)



# GAAP Hierarchy



- Authoritative
  - Category A
    - Fundamental guidance
    - Lengthy exposure
    - Majority of Board votes to approve
  - Category B
    - Application guidance
    - Shorter exposure for GASB documents vs. AICPA
    - “Clearance” by Board
      - Majority of Board does not object to guidance
- Nonauthoritative

# GAAP Hierarchy (cont.)



| Authoritative Guidance |                                                                                                                           |
|------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Category A             | Category B                                                                                                                |
| GASB Statements        | GASB Technical Bulletins (TB)<br>GASB Implementation Guides (IG)<br>AICPA Literature (e.g., Audit and Accounting Guides)* |

*\* Specifically applicable to state and local governments and “cleared” by the GASB*

# Nonauthoritative Literature



- Sources include
  - GASB Concepts Statements
  - Pronouncements and other literature of the
    - Financial Accounting Standards Board
    - Federal Accounting Standards Advisory Board
    - International Public Sector Accounting Standards Board
    - International Accounting Standards Board
    - AICPA (if not cleared by the GASB)
  - Practices that are widely recognized and prevalent in state and local government
  - Literature of other professional associations or regulatory agencies
  - Accounting textbooks, handbooks, and articles

# Use of Nonauthoritative Literature



- When evaluating the appropriateness of nonauthoritative literature, an entity should consider
  - Reason by analogy to existing GASB standard
  - Consistency with GASB Concepts Statements
  - Relevance to the particular circumstances
  - Specificity of the literature
  - General recognition of the issuer or author as an authority

# Due Process for Setting GAAP



- Purpose = informed decision making
- Steps
  - Identify issue
  - Pre-agenda research
  - Place issue on technical agenda
  - Deliberative process
    - Staff research
    - Taskforce or Advisory Group
    - Board discussions
    - Due process documents
      - Invitation to comment (ITC), Preliminary views (PV), Discussion memorandum (DM) - optional
    - Exposure draft (ED)
  - Final standard

# Keeping Pace With An Evolving GAAP



- GAAP is Changing Rapidly
  - Currently 105 statements
  - Implementation guides
- The Nature of GAAP is Changing
  - GASB 76- GAAP Hierarchy has substantially elevated implementation guidance
  - Most new standards are replacements or amendments of previous standards
- Reliance on the Statements/Original Pronouncements themselves can increase the risk of mistakenly relying on outdated guidance

# GASB Codification



- GASB's Codification is a comprehensive one-stop source for:
  - Applicable NCGA literature
  - Applicable AICPA accounting guidance
  - GASB:
    - Authoritative
      - Statements
      - Interpretations
      - Technical bulletins
      - Implementation guides
    - Non-authoritative
      - Concept statements
      - Illustrations and flowcharts

# GASB Codification Contents



- Consists of five parts in two volumes:

- Part 1 (1000 series) General Principles
- Part 2 (2000 series) Financial Reporting
- Part 3 (3000 series) Measurement
- Part 4 (Alpha-numeric) Specific Topics

Single letter i.e. Pensions=P20

- Part 5 (Alpha-numeric) Stand Alone Reporting-Special Units & Activities

Two letters i.e. Pension plans (trusts)=Pe5

# GASB Codification Contents (cont.)



- Appendices:
  - GASB Pronouncements Not Yet in Effect – Including codification instructions
  - GASB Concepts Statements
  - NCGA Objectives of Accounting and Financial Reporting for Governmental Units
  - Effective Dates of Pronouncements
  - **Finding List of Original Pronouncements**

# GASB Codification Contents (cont.)



- Within each Section:
  - Paragraphs .101-.499-Standards <sup>A</sup>
  - Paragraphs .501-.599-Definitions <sup>A</sup>
  - Paragraphs .601-.699-GASB Technical Bulletins <sup>B</sup>
  - Paragraphs .701-.799-GASB Implementation Guidance <sup>B</sup>
  - Paragraphs .801-.899-AICPA literature cleared by GASB <sup>B</sup>
  - Paragraphs .901-.999-Nonauthoritative materials, such as flowcharts and illustrations

<sup>A</sup> Category A GAAP

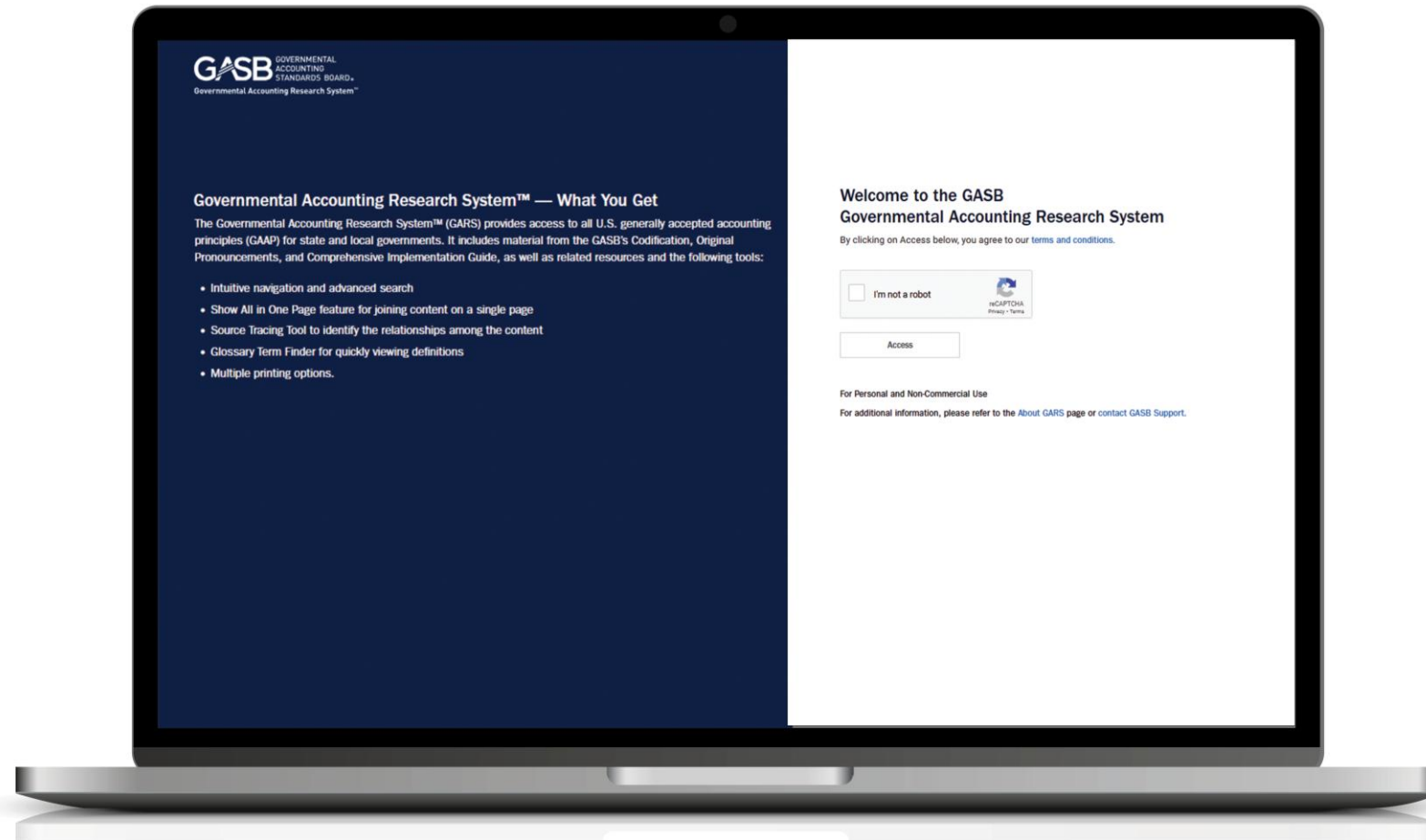
<sup>B</sup> Category B GAAP

# GASB Codification

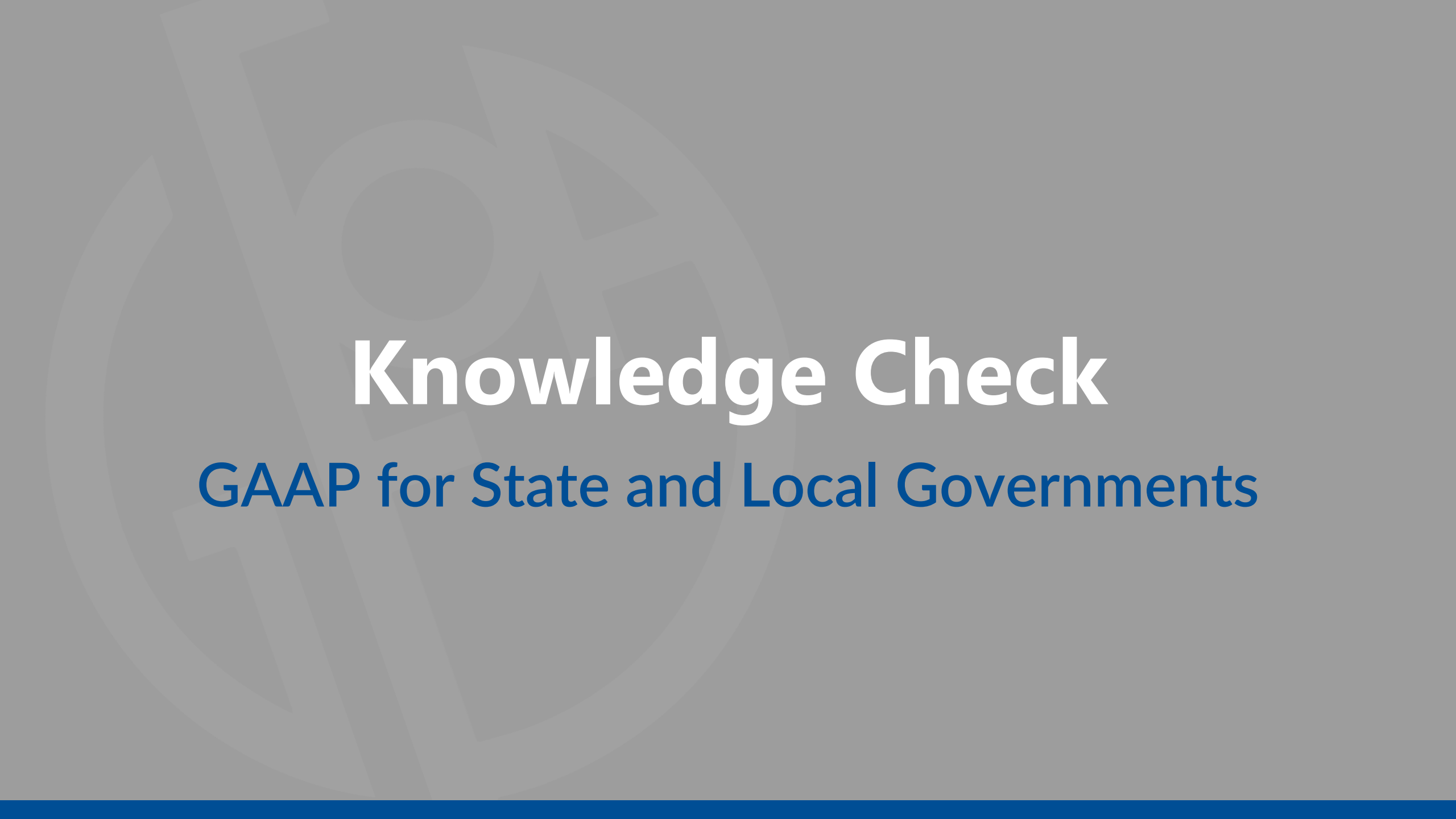


- Q & A immediately following authoritative guidance
- Illustrations have been *updated* to reflect changes to GAAP since the standards were originally issued
- What's missing from the Codification?
  - Statement introduction paragraphs
  - Statement backgrounds & bases for conclusions
  - Most transition guidance

# Governmental Accounting Research System



<https://gars.gasb.org/Login> - Free access



# Knowledge Check

GAAP for State and Local Governments

# Question 1

Every type of entity falls within the jurisdiction of an authoritative accounting and financial reporting standard-setting body.

- A. True
- B. False

## Question 2

All three authoritative accounting and financial reporting standard-setting bodies operate under the oversight of the Financial Accounting Foundation.

- A. True
- B. False

## Question 3

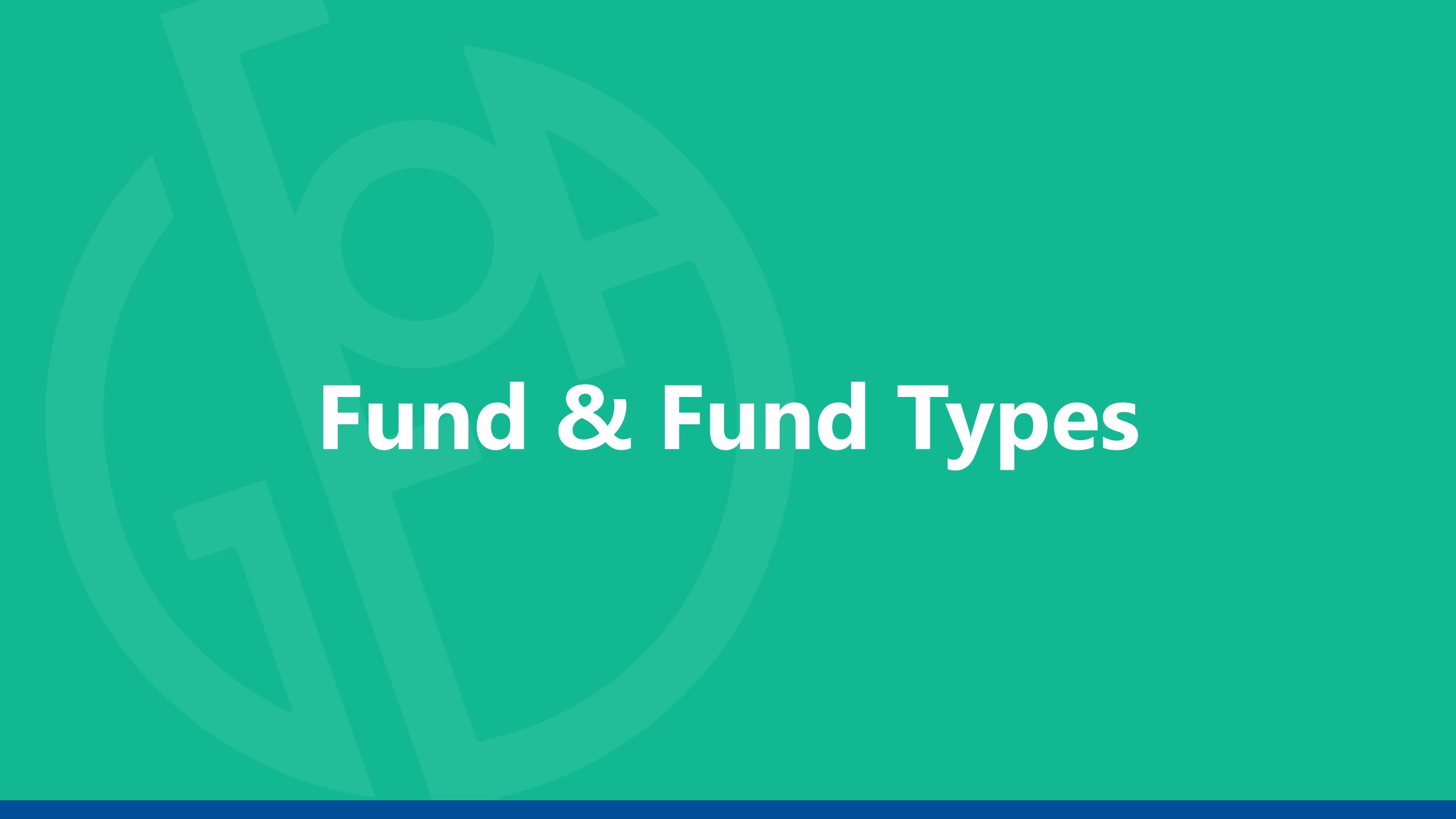
The Financial Accounting Foundation approves all GASB Statements.

- A. True
- B. False

## Question 4

All GASB documents are properly classified at the same level of the GAAP hierarchy.

- A. True
- B. False



# Fund & Fund Types

# Nature and Purpose of Funds



- Preemption of management discretion
  - Outside resource providers
  - Legislative branch
- Focus on accountability
- Need to ensure and demonstrate compliance

# Origin of Fund Accounting



- Originally separate cash accounts
- Evolved into accounting devices to demonstrate legal compliance
- All governments and some not-for-profit entities use fund accounting
  - Only governments report by funds in GAAP financial statements

# “Number of Funds” Principle



- When should an individual fund be *reported*?
  - *Only if* either:
    - Required by law, or
    - Needed for sound financial administration
  - Stated differently
    - Report *all* the individual funds needed
    - Report *only* the individual funds needed

# Financial Reporting vs. Accounting System



- Number of funds principle applies only to *external financial reporting*
  - Individual “funds” within the accounting system often are aggregated in external financial reports
  - Issue = How much detail do *outside* parties need?

# Categories of Funds (3)



- Governmental funds
  - Account for general operations of the government; activities whose support comes primarily from sources other than exchange-type transactions
  - Primary sources of income:
    - Taxes
    - Grants
- Proprietary funds
  - Used for activities that are primarily supported by user fees and charges

# Categories of Funds (cont.)



- Fiduciary funds
  - Used for resources held by government in a trustee or custodial capacity for outside parties. These resources are not available to support the government's own programs
- Total of 11 fund types in the 3 categories

# Categorizing Fund Types



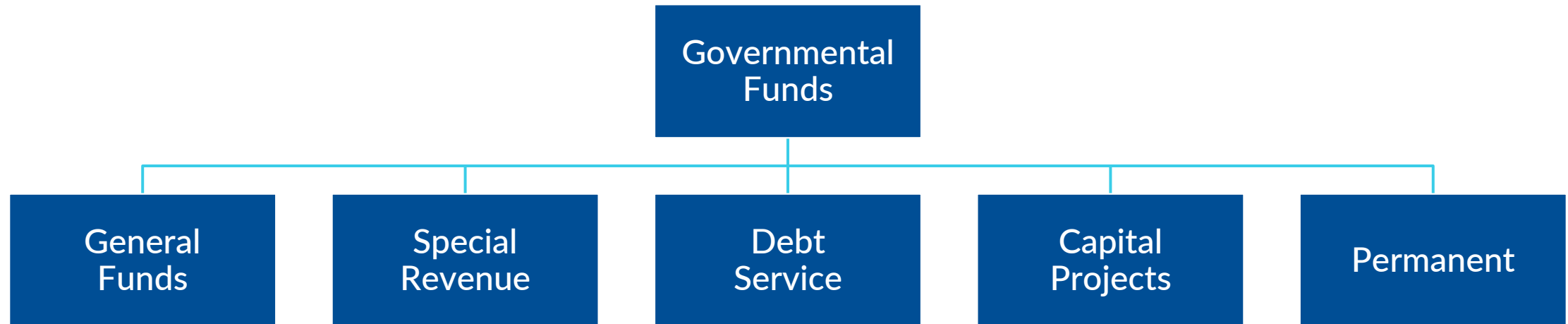
- Governmental funds
  - General fund
  - Special revenue funds
  - Debt service funds
  - Capital projects funds
  - Permanent funds
- Proprietary funds
  - Enterprise funds
  - Internal service funds

# Categorizing Fund Types (cont.)



- Fiduciary funds
  - Private-purpose trust funds
  - Pension (and other employee benefit) trust funds
  - Investment trust funds
  - Custodial funds

# Governmental Funds



# General Fund



- Chief operating fund
- Used for all activities by default, unless
  - GAAP requires the use of another fund type
  - A legal requirement to use another fund type
  - Sound financial administration requires use of another fund type
- Most transactions are reported in this fund
- Only one general fund is permitted for reporting purposes

# Special Revenue Funds



- Account for *specific* revenue sources that are restricted or committed for a *specific* purpose (other than debt service or capital projects)
- *May be used* if two criteria are met:
  1. Resources = Proceeds of specific restricted or committed revenue source(s)
    - Additional resources may be added, but proceeds of specific revenue source(s) must remain a substantial portion of total resource inflows
  2. Use limited to a specific purpose, other than debt service or capital projects
    - Restricted (external legal limitations)
    - Committed (self-imposed legal limitations)
    - Assigned resources may supplement core resources

# Special Revenue Funds (cont.)



- *Must be used for:*
  - General funds of any blended component units
- *May not be used for:*
  - Debt service
  - Capital Projects

# Debt Service Funds



- Accounts for resources accumulated for the repayment of debt principal and interest on general long-term debt.
  - Restricted
  - Committed
  - Assigned (“earmarked”)
- Use of fund type *required* only if:
  - Legally mandated
  - Resources have been accumulated for future years’ debt service

# Capital Projects Funds



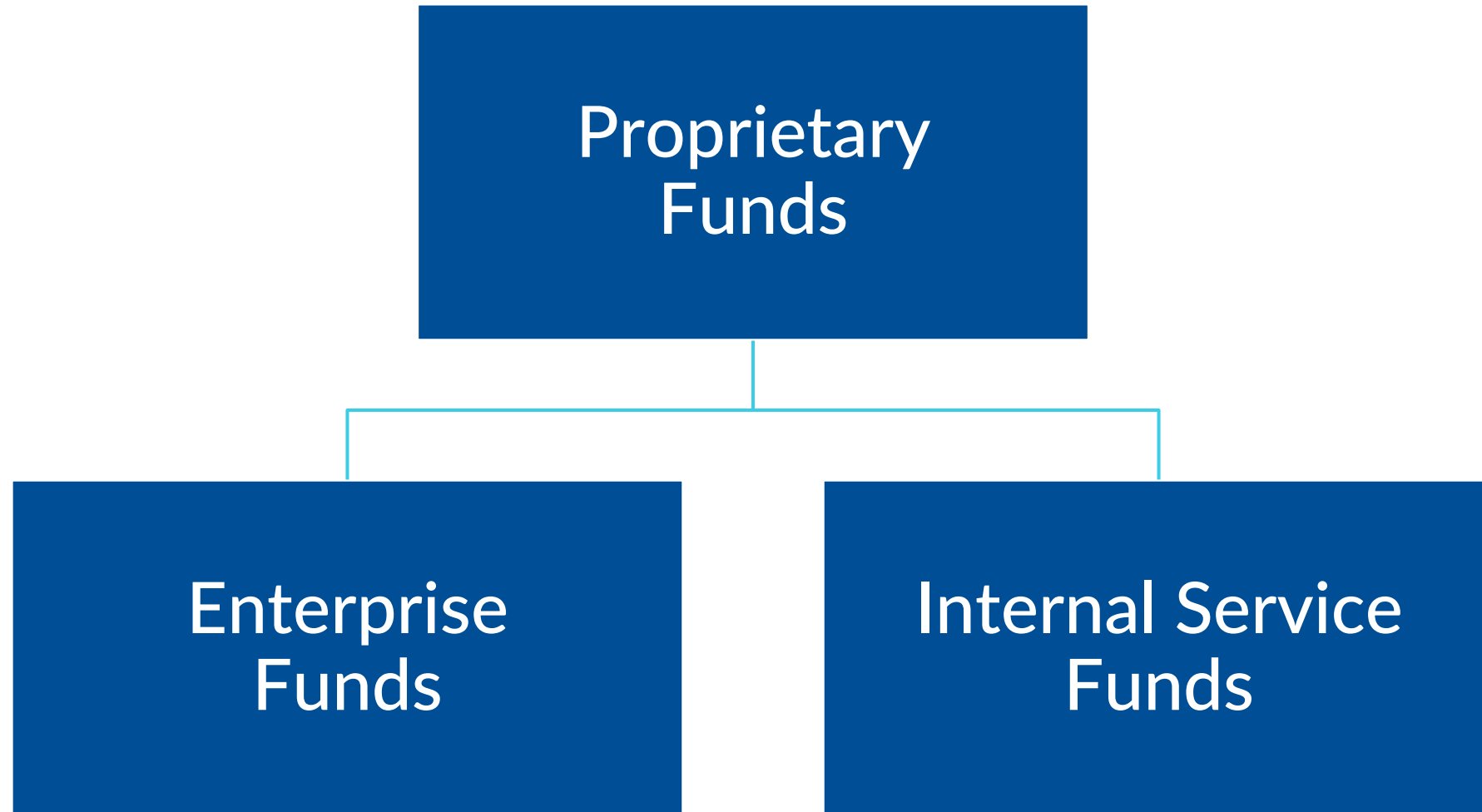
- Resources accumulated for major capital outlays, unrelated to proprietary funds or fiduciary funds
  - Restricted
  - Committed
  - Assigned
- Use of fund type *normally* permitted rather than required
  - Some debt covenants or grants may require their use

# Permanent Funds



- Resources legally restricted to the extent that only the earnings, not the principal, may be used to support the government's own programs
- Examples
  - Endowments
  - Municipal cemetery perpetual care fund

# Proprietary Funds



# Enterprise Funds



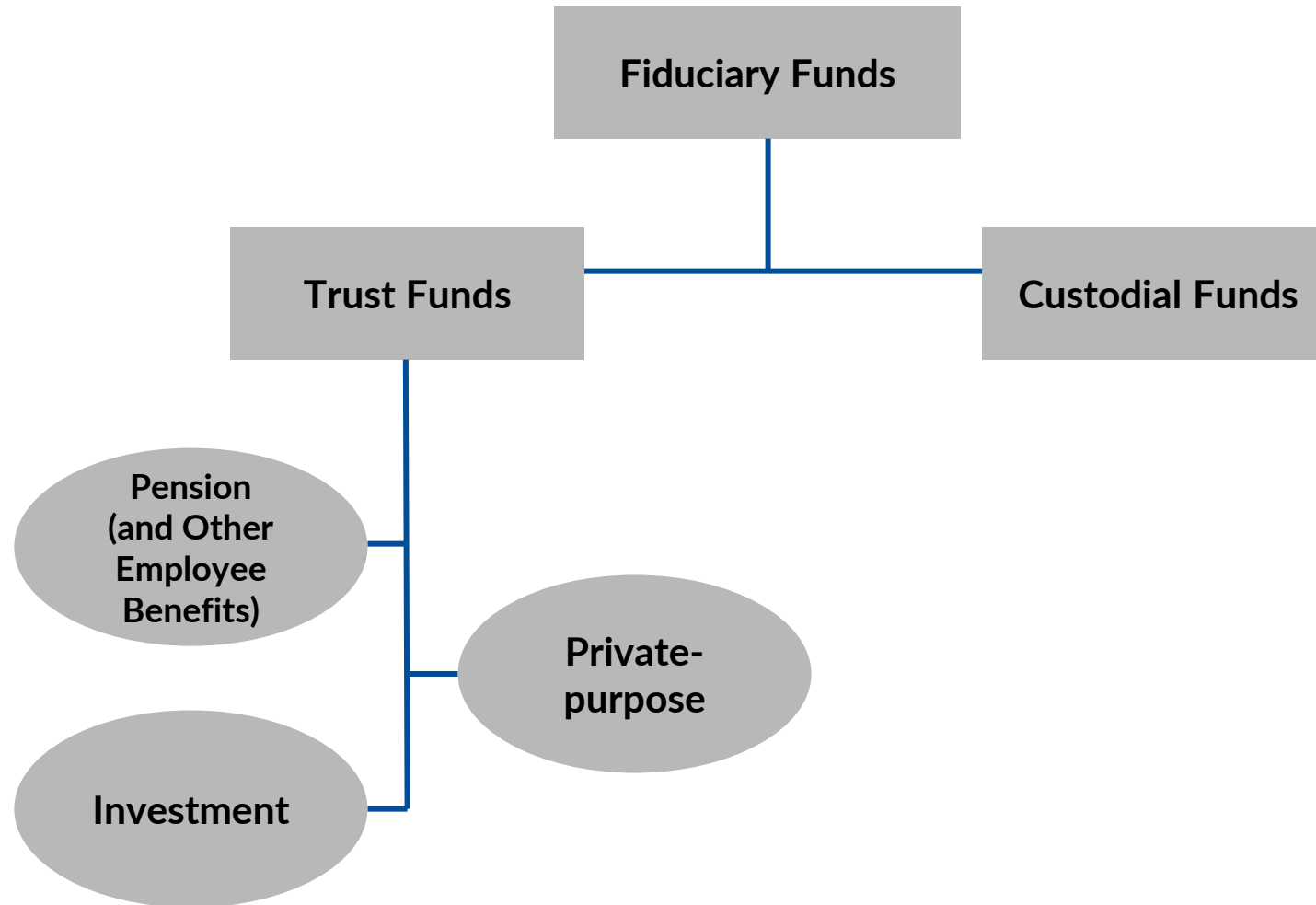
- Account for activities that operate like a business
- General rules
  - Use of fund type *permitted*
    - Fee charged to external users, even if only partial recovery is intended
  - Use of fund type *required*
    - Debt backed *solely* by fees and charges
    - Legal requirement to *fully* recover direct costs
    - Management intent to *fully* recover direct costs
- Use of fund type required in certain specific situations
  - Public-entity risk pools or unemployment compensation benefit plans

# Internal Service Funds



- Account for goods or services provided on a cost-reimbursement basis to other departments of the government
  - Customer charges must include a capital component
    - Depreciation expense
    - Debt service
    - Replacement cost
- Use of fund type required (if separate fund used)
  - Activities that would be reported as enterprise funds except that the primary government itself is the predominant participant
- General rule: “Break-even” over time

# Fiduciary Funds



# Fiduciary Funds



- Account for resources that government holds in a trustee or custodial capacity on behalf of an outside party
- Resources cannot be used to support a government's own programs



- Trust funds vs. custodial funds
  - Trust funds
    - Ongoing responsibility
    - Some degree of active management
    - Formal trust agreement
  - Custodial funds
    - All other fiduciary activities carried out using assets that are not held in a trust or equivalent arrangement

# Pension (and Other Employee Benefit) Trust Funds



- Account for activities in:
  - Defined benefit pension plans
  - Defined contribution pension plans
  - Other postemployment benefit (OPEB) plans  
(including 457 plans funded only by employees)
  - Other employee benefit plans
- Used for resources that are *held* by the government
  - Not just remitted to a third party

# Investment Trust Funds



- Account for:
  - External portion of a government-sponsored trusted investment pool
    - Exclude the portion of pooled resources belonging to governments in the same financial reporting entity
      - Report instead as a line item in sponsor's own financial statements
  - Investment accounts
    - Individual investments held on behalf of others

# Private-Purpose Trust Funds

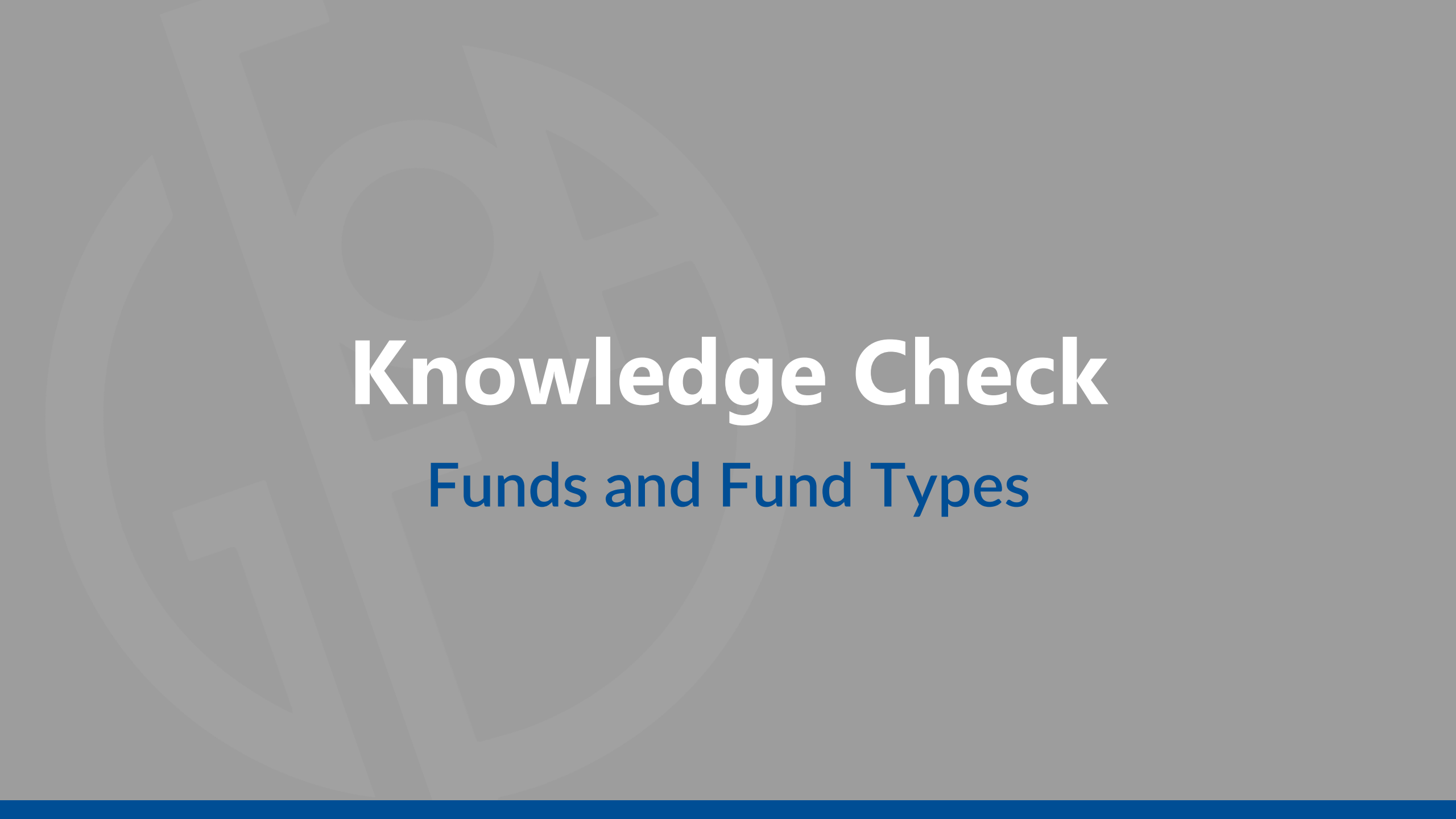


- Account for resources that are held and administered by the government in a trustee capacity
  - Benefit *individual* outside parties (vs. classes of individuals)
    - Trustee government has little or no discretion on amount assigned to an individual
- Examples
  - Escheat property (if formal trust agreement in place)
  - Private scholarship programs for high schools or colleges

# Custodial Funds



- All other fiduciary activities not in a trust fund
  - Amounts held for others for other postemployment benefits in the absence of a trust or equivalent arrangement
  - External portion of a government-sponsored investment pool not in a trust
- Used for resources held in a purely custodial capacity, and government does not have direct financial or administrative involvement with assets
  - Example: Property taxes collected on behalf of other governments (Receipt, temporary investment, remittance)
- No formal trust agreement



# Knowledge Check

## Funds and Fund Types

# Question 1

Often the number of funds reported in the financial statements may be less than the number of funds used in the accounting system.

- A. True
- B. False

## Question 2

Which of the following is a fund category?

- A. Special revenue funds
- B. Enterprise funds
- C. Fiduciary funds
- D. All of the above
- E. None of the above

## Question 3

The use of which fund type(s) presumes that costs will be completely recovered through fees and charges?

- A. Enterprise funds
- B. Internal service funds
- C. Both A and B
- D. None of the above

## Question 4

Formal trust agreements normally are characteristic of:

- A. Trust funds
- B. Custodial funds
- C. Both A and B
- D. None of the above

## Question 5

Which of the following could serve as a basis for a special revenue fund?

- A. Grant proceeds
- B. Dedicated tax increment
- C. Earmarked fund balance from the general fund
- D. All of the above
- E. Both A and B

## Question 6

Which of the following could be used to report resources that are available to support the government's own programs?

- A. Permanent funds
- B. Private-purpose trust funds
- C. Custodial funds
- D. All of the above
- E. Both A and B

## Question 7

The only real difference between an enterprise fund and an internal service fund is the identity of the customers (enterprise fund = external customers; internal service funds = internal customers).

- A. True
- B. False

## Question 8

In at least one instance, a fund of a blended component unit may need to be reclassified when that unit is included within the primary government.

- A. True
- B. False

## Question 9

How should a county that sponsors a local government investment pool account for that pool in its financial statements if the county itself participates in the pool?

- A. Investment trust fund
- B. Line item in fund financial statements
- C. Either A or B
- D. Both A and B

## Question 10

Which of the following would most likely be reported in a proprietary fund?

- A. Taxes
- B. Grants
- C. Fees and charges
- D. Resources held in trust

# Question 11

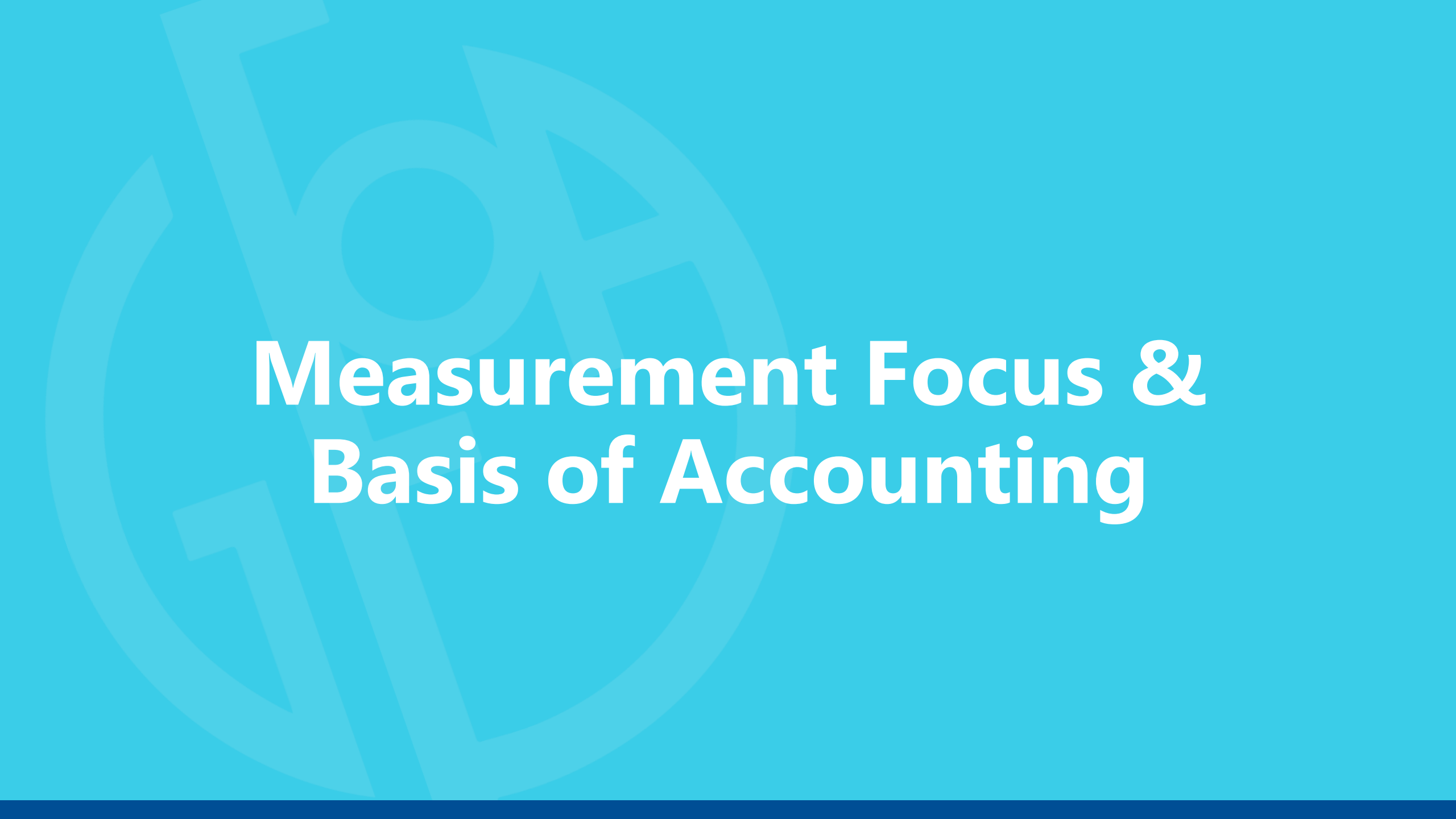
For which of the following fund types, if any, is there a specific limit on the number of individual funds that may be reported?

- A. Special revenue funds
- B. Internal service funds
- C. Enterprise funds
- D. Custodial funds
- E. None of the above

## Question 12

Which of the following is a precondition for reporting a special revenue fund?

- A. Limitation on expenditure imposed by an external party
- B. One or more specific revenue sources
- C. All of the above



# Measurement Focus & Basis of Accounting

# Measurement Focus and Basis of Accounting



- Measurement focus = *What* to measure and report as elements of the financial statement
  - Changes in net economic resources
  - Changes in net current financial resources
- Basis of accounting = *When* to measure and report the change
  - Two extremes
    - Accrual basis
    - Cash basis

# Measurement Focus



- *What* to measure
- *Economic* resources
  - All assets, liabilities, and deferred outflows/inflows of resources
  - Changes in economic position during the period
- *Current financial* resources
  - Only assets, liabilities, and deferred outflows/inflows of resources relevant to near-term liquidity
    - Cash vs. capital assets
    - Current debt service vs. future debt service
  - Changes in financial position during the period

# Terminology



- Increases/inflows in financial position
  - Economic resources
    - Revenues/gains
  - Current financial resources
    - Revenues/other financing sources
- Decreases/outflows in financial position
  - Economic resources
    - Expenses/losses
  - Current financial resources
    - Expenditures/other financing uses

# 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)

| DR    | CR    |
|-------|-------|
| \$100 | \$100 |

- Current financial resources? Yes

Expenditures – debt service principal  
Cash  
(Repayment of principal of long-term debt)

| DR    | CR    |
|-------|-------|
| \$100 | \$100 |

### 3. Capital Outlay



- Net effect on statement of financial position?
  - Economic resources? No

Equipment  
Cash  
(Purchase of equipment)

| DR    | CR    |
|-------|-------|
| \$100 | \$100 |

- Current financial resources? Yes

Expenditures – capital outlay  
Cash  
(Purchase of equipment)

| DR    | CR    |
|-------|-------|
| \$100 | \$100 |

# 4. Consumption of Capital Assets



- Net effect on statement of financial position?

- Economic resources? Yes

Expense – depreciation  
    Accumulated depreciation  
(Depreciation of equipment)

| DR   | CR   |
|------|------|
| \$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)                      |

# Basis of Accounting



- Two extremes

- Accrual basis

- 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

- Cash basis

- Transactions and events recognized *only when related cash flows occurs*
    - Recognize revenue when cash is received
    - Recognize disbursements when cash is spent

# Middle Way: Modified Accrual Basis



- Starting point = Accrual
  - When the underlying transaction or event occurs
- Modify 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

# Summary – Revenue Recognition



| Inflows (claim to resources obtained) |           |                       |                   |
|---------------------------------------|-----------|-----------------------|-------------------|
|                                       | Collected | Collectible near-term | Collectible later |
| Cash basis                            | Relevant  | Not relevant          | Not relevant      |
| Near-term liquidity                   | Relevant  | Relevant              | Not relevant      |
| Accrual basis                         | Relevant  | Relevant              | Relevant          |

# Summary – Expenditure/Expense Recognition



| Outflows (obligations incurred) |          |                   |               |
|---------------------------------|----------|-------------------|---------------|
|                                 | Paid     | Payable near-term | Payable later |
| Cash basis                      | Relevant | Not relevant      | Not relevant  |
| Near-term liquidity             | Relevant | Relevant          | Not relevant  |
| Accrual basis                   | Relevant | Relevant          | Relevant      |

# Natural Pairing



## Measurement Focus

- Economic resources
- Current financial resources



## Basis of Accounting

- Accrual basis
- Modified accrual basis

# 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

# Application (cont.)

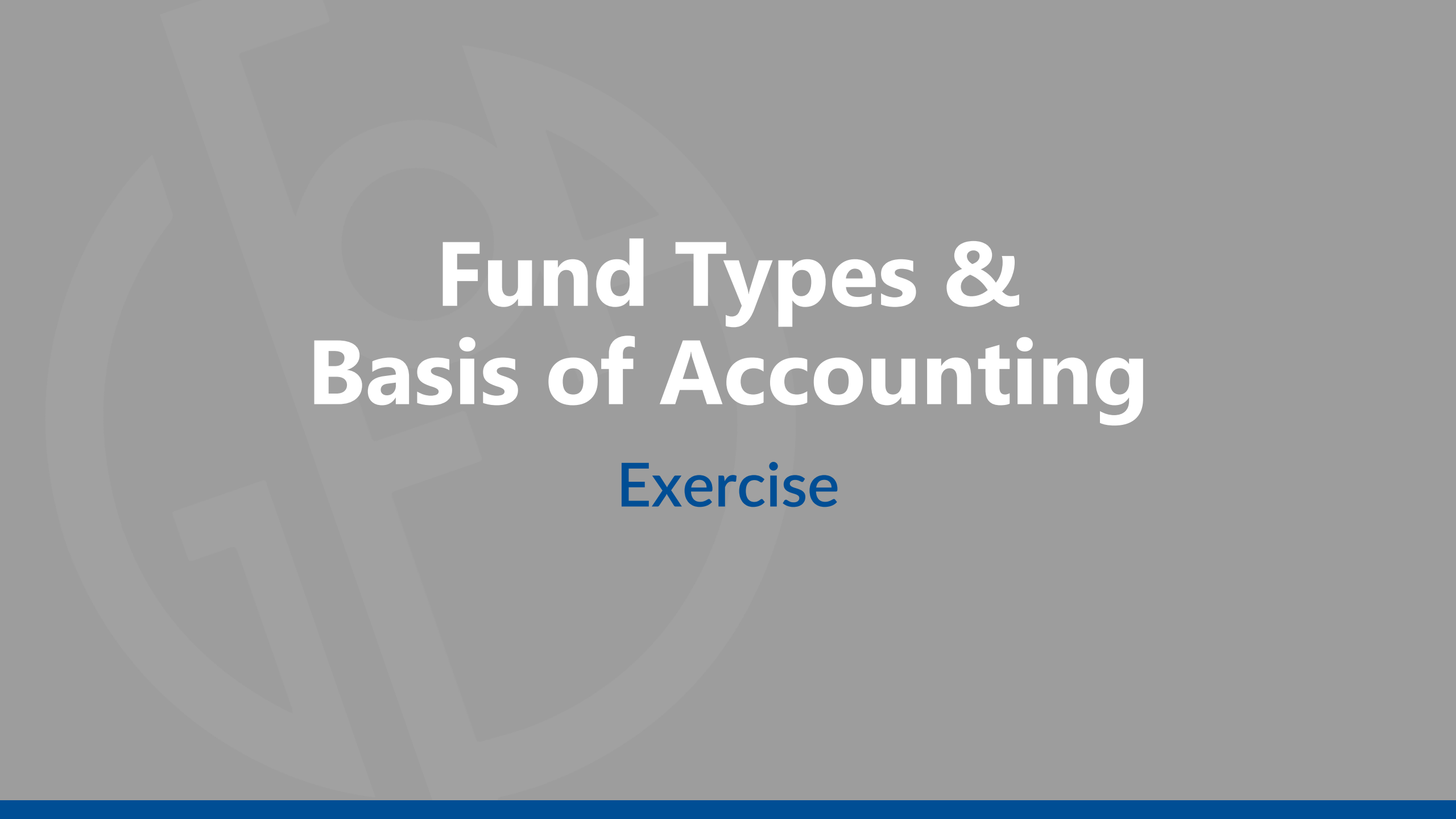


| Basis of Accounting        |                  |         |
|----------------------------|------------------|---------|
| Fund Type                  | Modified Accrual | Accrual |
| <b>Government Funds</b>    |                  |         |
| General Fund               | X                |         |
| Special Revenue Fund       | X                |         |
| Debt Service Fund          | X                |         |
| Capital Projects Fund      | X                |         |
| Permanent Fund             | X                |         |
| <b>Proprietary Funds</b>   |                  |         |
| Enterprise Fund            |                  | X       |
| Internal Service Fund      |                  | X       |
| <b>Fiduciary Funds</b>     |                  |         |
| Pension/OPEB Trust Fund    |                  | X       |
| Investment Trust Fund      |                  | X       |
| Private-purpose Trust Fund |                  | X       |
| Custodial Trust Fund       |                  | X       |

# Summary – Accrual vs. Modified Accrual Accounting



| Item                | Accrual Basis              | Modified Accrual Basis                                                                                                                                                                                                                                                             |
|---------------------|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue             | When earned and measurable | When earned, IF MEASURABLE AND <b>AVAILABLE</b> *<br><br>*Collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period                                                                                                      |
| Expense/Expenditure | When liability is incurred | When liability is incurred, EXCEPT FOR:<br><br><ol style="list-style-type: none"><li>1. Unmatured debt</li><li>2. Accrued interest</li><li>3. Certain accrued liabilities normally not expected to be liquidated currently with expendable available financial resources</li></ol> |



# Fund Types & Basis of Accounting

Exercise

# Fund Types and Basis of Accounting- EXERCISE

Choose the *best* fund type from the list below, in which to record each transaction. Include the basis of accounting used by each fund type as well.

|                          |                         |
|--------------------------|-------------------------|
| A. Permanent             | G. Enterprise           |
| B. Private-purpose Trust | H. Custodial            |
| C. Internal Service      | I. General              |
| D. Capital Projects      | J. Pension & OPEB Trust |
| E. Investment Trust      | K. Debt Service         |
| F. Special Revenue       |                         |

# Fund Types and Basis of Accounting – EXERCISE

1. Sales tax receipts restricted for a particular purpose.
2. The County collects property taxes on behalf of the local municipality who levied the tax.
3. Principal and interest payments made on general long-term debt.
4. Costs for operating a water utility.

# Fund Types and Basis of Accounting – EXERCISE

5. Assets held in trust to provide retirement benefits for public safety employees.
6. Gifts in which the principal must be preserved but the investment earnings may be used for a public purpose.
7. Costs associated with a central municipal garage that maintains all of the City's vehicles and equipment, and allocates those costs to the applicable departments.
8. General administrative costs of the County

# Fund Types and Basis of Accounting – EXERCISE

9. Costs to construct a new Village Hall.
10. Amusement tax receipts that are restricted for use on tourism.
11. Assets of a local government that the State is holding in trust in a government-sponsored external investment pool.
12. State's own resources that are invested in a State-sponsored external investment pool for general purposes.

# Fund Types and Basis of Accounting – EXERCISE

13. Gifts in which the principal and interest are held in trust and may be used to provide scholarships for low-income children at the local high school.
14. Fees and charges associated with the provision of sanitary sewer services.
15. Resources accumulated for future principal and interest payments on long-term debt.
16. General planning expenditures associated with the overall strategy for the City's economic development.

# Fund Types and Basis of Accounting – EXERCISE

17. Federal revenues being held by a local school district for the reimbursement of costs associated with its school lunch program.
18. Assets of a local government that the State is holding in an external investment pool that is *not* in a trust.
19. Greens fees charged to golfers in conjunction with a Village-owned golf course.
20. Costs associated with the major reconstruction of roads within the County.

# Fund Types and Basis of Accounting – EXERCISE

- 21. Principal payment made on general government debt.
- 22. Resources held in trust for inmates to make purchases at the prison canteen.
- 23. Property taxes levied by the local government and collected by the County for distribution back to the local government. How would the County classify?

# Fund Types and Basis of Accounting – EXERCISE

- 24. Costs associated with risk management that are allocated to the applicable departments/funds based on their proportionate share of the full cost.
- 25. An endowment received by the Village that must be spent to beautify the downtown. The principal must remain intact; only the earnings may be spent.



# Financial Statement Elements

# Traditional Components of Financial Position



- Financial statement *elements*
  - Assets
  - Liabilities
  - Difference – Equity
- “Accounting equation”
  - Assets – Liabilities = Equity



# Development of Definitions for Public Sector



- Assets
  - Resources with present service capacity that the government presently controls
- Liabilities
  - Present obligations to sacrifice resources that the government has little or no discretion to avoid

- Resources with *present service capacity* that the government presently *controls*
  - Present service capacity
    - Existing capability to enable the government to provide services
      - Cash to procure services for the government
      - Roads used by citizens
  - To be distinguished: *Controls vs. benefits*

- Ability to determine whether to
  - Use directly
  - Exchange for another asset
  - Employ in some other way that provides benefit
- For assets used by the general public
  - Ability to control access
- Legal limitations or other external constraints are *not* inconsistent with control

# Source of Control



- Result of a past event (vs. inherent powers)
  - Inherent powers (taxation) allow a government to acquire assets, but are not, in themselves, assets
- Typical sources
  - Contractual rights
  - Legal ownership
  - Exercise of inherent powers (tax levy)

# Liabilities



- *Present obligations* to sacrifice resources that the government has *little or no discretion* to avoid

# Present Obligation



- Social, legal, or moral requirement
  - Underlying event must have taken place
    - As distinguished from a commitment

# “Little or No Discretion to Avoid”



- Legally enforceable (not essential)
- Constructive
  - Social, moral, or economic consequences leave little or no discretion
- Must involve an outside party
  - Identity may be unknown
  - Excludes items such as “deferred maintenance”

# 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

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

- Debit on statement of financial position rather than debit on statement of resource flows
  - Delays recognition of outflow
    - Practical effect equivalent to reporting an asset

# 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
    - Practical effect equivalent to reporting a liability

# Summary



- New “accounting equation”

$$\left[ \begin{array}{l} \text{Assets +} \\ \text{Deferred Outflows} \end{array} \right] - \left[ \begin{array}{l} \text{Liabilities +} \\ \text{Deferred Inflows} \end{array} \right] = \text{Net Position or Fund Balance}$$

# GASB's Approach to Classification - Hierarchy



- Test 1:
  - Does it meet the definition of an asset or a liability?
    - Yes - report as asset or liability
- Test 2:
  - Does it meet the definition of a deferred outflow/inflow of resources?
    - Yes - report as deferred outflow/inflow of resources
- Default:
  - Outflow/inflow of the current period

# Deferred Outflow of Resources



- Grant payments made by the reporting government to a recipient when only the time requirement has not been met
- Excess of the reacquisition price of refunded debt over its net carrying amount
  - “Loss” on refunding
- Payment made by a transferee government to buy a future revenue stream from another government in the same reporting entity

# Outflow of Resources Clarification

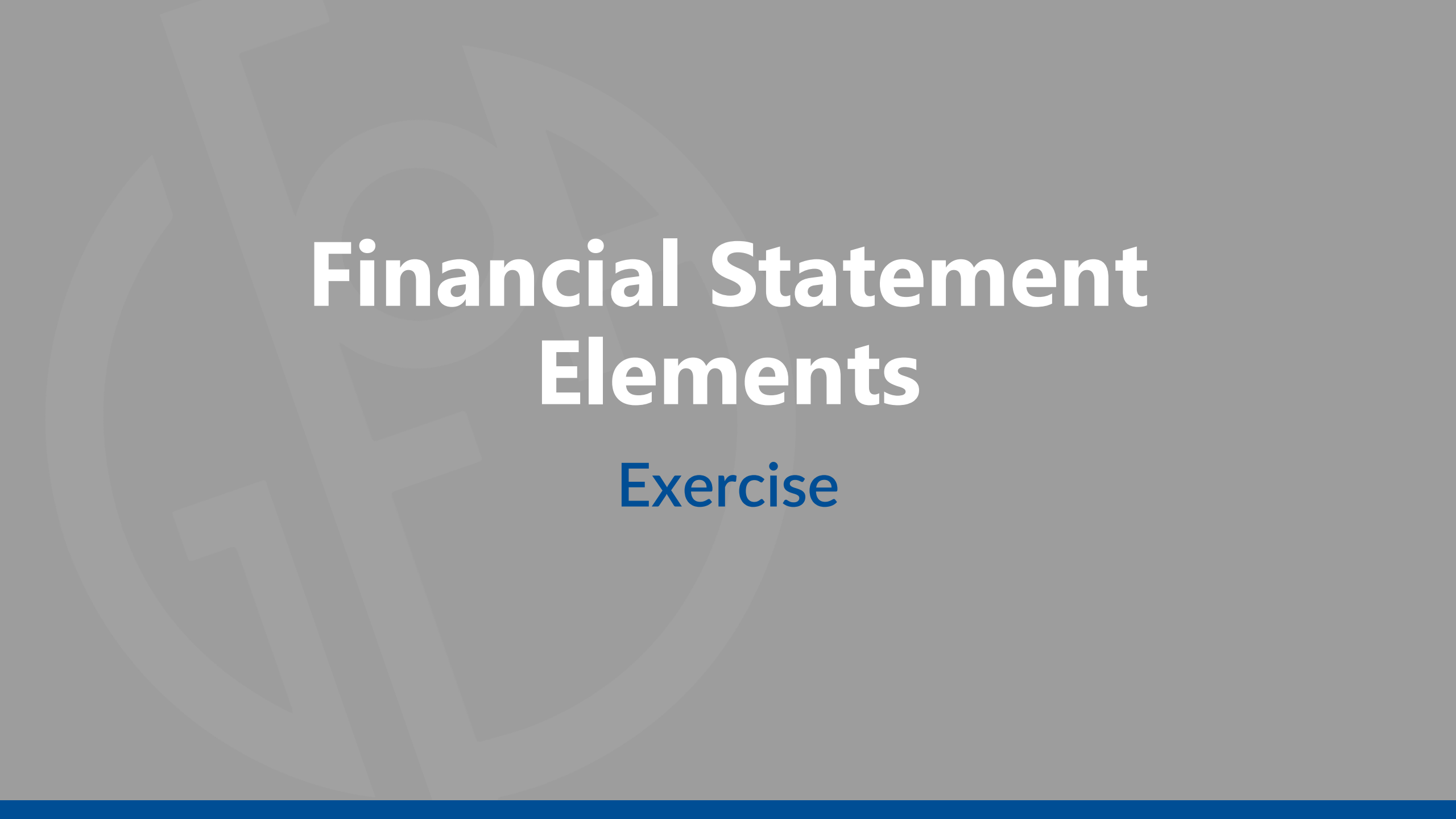


- Debt issuance costs (other than insurance)

# Deferred Inflows of Resources



- Resources received from a grantor when only the time requirement has not been met
- Imposed nonexchange revenues received or recognized as a receivable prior to the beginning of the applicable period
  - Period for which levied (property taxes)
  - Period when the use of the resources is either required or first permitted (other)
- Governmental funds
  - Unavailable revenue
    - Contrast with unearned revenue



# Financial Statement Elements

Exercise

# Financial Statement Elements – EXERCISE Part 1

1. Noncurrent assets
2. Governmental funds
3. Noncurrent liabilities

# Financial Statement Elements – EXERCISE Part 1

4. Net position

5. Fund accounting

# Financial Statement Elements – EXERCISE Part 1

6. Proprietary funds

7. Current assets

# Financial Statement Elements – EXERCISE Part 1

8. Fund balance

9. Current liabilities

# Financial Statement Elements – EXERCISE Part 2

Normally a debit balance or credit balance?

1. Sales tax revenue
2. Deferred inflow of resources for pensions
3. Salaries and benefits expenditure
4. Investment income
5. Transfers out to capital projects fund

# Financial Statement Elements – EXERCISE Part 2

Normally a debit balance or credit balance?

6. Deferred outflow of resources; loss on refunding of debt
7. Accounts payable
8. Fund balance
9. Due from other funds
10. Capital outlay expenditure



# Review

# Question 1

Often the number of funds reported in the financial statements may be less than the number of funds used in the accounting system.

- A. True
- B. False

## Question 2

The use of which fund type(s) presumes that costs will be completely recovered through fees and charges?

- A. Enterprise funds
- B. Internal service funds
- C. Both A and B
- D. None of the above

## Question 3

Formal trust agreements normally are characteristic of

- A. Trust funds
- B. Custodial funds
- C. Both A and B
- D. None of the above

## Question 4

Which of the following could serve as a basis for a special revenue fund?

- A. Grant proceeds
- B. Dedicated tax increment
- C. Service fees and charges
- D. All of the above
- E. Both A and B

## Question 5

Which of the following could be used to report resources that are available to support the government's own programs?

- A. Permanent funds
- B. Private-purpose trust funds
- C. Custodial funds
- D. All of the above
- E. Both A and B

## Question 6

The only real difference between an enterprise fund and an internal service fund is the identity of the customers (enterprise fund = external customers; internal service funds = internal customers).

- A. True
- B. False

## Question 7

How should a county, that sponsors a local government investment pool trust fund, account for that pool in its financial statements if the county itself participates in the pool?

- A. Investment trust fund
- B. Line item
- C. Either A or B
- D. Both A and B

## Question 8

Which of the following would most likely be reported in a proprietary fund?

- A. Taxes
- B. Grants
- C. Fees and charges
- D. Resources held in trust

## Question 9

For which of the following fund types, if any, is there a specific limit on the number of individual funds that may be reported?

- A. Special revenue funds
- B. Internal service funds
- C. Enterprise funds
- D. Custodial funds
- E. None of the above

## Question 10

Measurement focus determines *what* is measured, while basis of accounting determines *when* recognition should occur.

- A. True
- B. False

# Question 11

Which of the following would not appear in a statement of resource flows prepared using the economic resources measurement focus?

- A. Revenues
- B. Expenses
- C. Expenditures
- D. None of the above

## Question 12

Which of the following terms could be used in a statement of resource flows prepared using the current financial resources measurement focus?

- A. Revenue
- B. Gain
- C. Expense
- D. Loss
- E. All the above
- F. None of the above

## Question 13

Which basis of accounting is consistent with the economic resources measurement focus?

- A. Cash
- B. Modified accrual
- C. Accrual
- D. All of the above
- E. None of the above

## Question 14

Revenue could never be recognized earlier in a governmental fund than in the government-wide financial statements.

- A. True
- B. False

## Question 15

The key factor that differentiates *deferred* outflows of resources from outflows, and *deferred* inflows of resources from inflows, is timing.

- A. True
- B. False

## Question 16

An earned grant payment that is received prior to the start of the period for which it may be used should be reported as a

- A. Liability
- B. Deferred inflow of resources
- C. Either A or B

## Question 17

How should property taxes collected in advance of the year for which levied be classified?

- A. Liability
- B. Inflow of resources
- C. Deferred inflow of resources
- D. Either A or B

## Question 18

A commitment should be classified as a liability.

- A. True
- B. False

## Question 19

A liability, by definition, *must be* legally enforceable

- A. True
- B. False

# THANK YOU FOR ATTENDING!

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