

Accounting Academy

August 2026 | 24 CPE Credits

Day 2

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Categories of Transactions & Events

Interfund Activity vs. Transactions



- Interfund activity
 - Between funds of the primary government
 - Including blended component units
- Transactions
 - Between primary government and outside parties
 - Between primary government and discretely presented component units
 - Between discretely presented component units

Basic Categories of Transactions



- Exchange and exchange-like transactions
- Nonexchange transactions

Exchange and Exchange-Like Transactions



- Value both given and received
 - Exchange
 - Equal value given and received
 - Exchange-like
 - Approximately equal value given and received, or
 - Value provided to a party other than the counterparty
 - For example, a discretely presented component unit

Nonexchange Transactions



- Value is *not* both given and received
 - Taxes
 - Grants
- Four categories
 1. Derived tax revenues
 2. Imposed nonexchange revenues
 3. Government-mandated nonexchange transactions
 4. Voluntary nonexchange transactions

1. Derived Tax Revenues



- Assessment based on an underlying transaction to which the government itself is not a party
 - Sales tax
 - Income tax
 - Motor fuel tax
 - Hotel occupancy tax

2. Imposed Nonexchange Transactions



- Government assessments other than derived tax revenues
 - Property taxes and other ad valorem taxes
 - Fines and penalties
 - Forfeitures

3. Government-Mandated Nonexchange Transactions



- Funded mandates
 - Mandate to perform an action or provide a service accompanied by at least partial funding
 - Requirement to offer a particular type of special education program for which the state will bear half the cost
 - Limited to intergovernmental transactions
 - Medicaid
 - Special education

4. Voluntary Nonexchange Transactions



- All other nonexchange transactions
 - Not limited to intergovernmental
 - Elective grants and contributions
 - FEMA
 - Shared revenue and general intergovernmental aid from the perspective of the recipient, *if unrestricted*



Treatment from the **Recipient** Perspective

Exchange and Exchange-Like Revenues



- Recognition
 - When underlying exchange occurs
- Additional criterion for governmental funds
 - Is the revenue available (collected in the defined availability period)?
 - Yes = Report as revenue
 - No = Report as deferred inflow of resources (unavailable revenue)
- Money received in advance = Report as liability (unearned revenue)
- Recognize revenue net of uncollectible amounts

Derived Tax Revenues



- Recognition
 - Recognized when underlying exchange occurs, Unaffected by purpose restrictions
 - Example: Motor fuel tax that must be spent on road construction and maintenance
 - Net of estimated refunds and uncollectible amounts
 - Include expected proceeds of future tax enforcement audits, if estimable
- Additional criterion for governmental funds
 - Is the revenue available (collected in the defined availability period)?
 - Yes = Report as revenue
 - No = Report as deferred inflow of resources (unavailable revenue)

Imposed Nonexchange Revenues



- Recognition
 - Recognized when enforceable legal claim exists
 - Revenue = Enforceable legal claim + time requirement met
 - Time requirement = Resources may be spent only
 - Subsequent to a specified date, or
 - During a specified period
 - Unaffected by purpose restrictions
 - Money received in advance of time requirement?
 - Yes = Report as deferred inflow of resources

Imposed Nonexchange Revenues (cont.)



- Manner of recognition
 - Net of estimated refunds and uncollectible amounts
 - Include expected proceeds of future tax enforcement audits, if measurable
- Additional criterion for governmental funds = Is the revenue available?
 - No = Report as deferred inflow of resources

Government-Mandated Nonexchange Revenues



- Recognition
 - When all eligibility criteria have been met, including time requirement
 - Time requirement assumed (if necessary) for governmental providers
 - Fiscal year of immediate provider
 - Unaffected by purpose restrictions

Government-Mandated Nonexchange Revenues (cont.)



- Money received
 - Before other eligibility criteria met
 - Liability
 - Before time requirement met, but after other eligibility requirements met
 - Deferred inflow of resources
- Additional criterion for governmental funds = Is the revenue available?
 - No = Report as deferred inflow of resources

Voluntary Nonexchange Revenues



- Recognition = Same as for government-mandated nonexchange revenues

Expenditure-Driven (Reimbursement) Grants



- Classification = Government-mandated or voluntary nonexchange transactions
- Eligibility requirement = Spending
 - Not a purpose restriction
- Recognition when both
 - Qualifying expenditures incurred, and
 - Contingent requirements met (for example, matching requirements)
 - Not applicable to purely administrative requirements, such as filing of grantor reports



Treatment from the **Provider** Perspective

Provider Perspective



- General rule
 - Mirror image of recipient treatment
- Unallowable amounts
 - Receivable reported to match recipient liability for unallowable amounts

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Governmental Funds Revenue Recognition

Basic Rule



- *Modified* accrual basis
- Criteria for revenue recognition
 - Obtain claim to resources, *and available*
 - Collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period
- Availability does not affect recognition of the asset (receivable)
 - Effect limited to balancing credit
 - Revenue vs. deferred inflow of resources

- Availability period
 - Generally a matter of professional judgment
 - Exceptions
 - 60-day maximum for property taxes
 - Immediate recognition required for increases in the fair value of investments
 - Single period is desirable - typically 60 days
 - Exception for “unusual circumstances”
 - Collectible vs. collected
 - Issue = Whether government could collect revenue
 - Declining to collect the available revenue does not make it “unavailable”

Refunds and Uncollectibles



Revenue reported net of estimated refunds and uncollectibles

Journal entry

	<u>DR</u>	<u>CR</u>
Accounts receivable	\$1,000	
Allowance for doubtful accounts		\$ 10
Revenue		990

(To account for revenue net of uncollectible amount)

When Prepayments Are Received



- Availability is *not* a substitute for obtaining a claim to resources (earning the revenue)
- Offset prepayments received by liability or deferred inflow of resources
 - Liability – unearned
 - Deferred inflow of resources – only awaiting a future period

Expenditure-Driven Grant with Prepayments Received



City is awarded a \$4,000 expenditure-driven grant from the state. The state provides the City with an upfront payment of \$1,000 on the grant.

	<u>DR</u>	<u>CR</u>
<i>Receipt of the upfront payment:</i>		
Cash	\$1,000	
Unearned revenue (liability)		\$1,000
<i>City makes \$2,500 of qualified expenditures early in the fiscal year (FY):</i>		
Unearned revenue	\$1,000	
Grants receivable	1,500	
Grant revenue		\$2,500

Expenditure-Driven Grant with Prepayments Received (cont.)



	<u>DR</u>	<u>CR</u>
<i>City receives reimbursement during the FY:</i>		
Cash	\$1,500	
Grant receivable		\$1,500
<i>City makes an additional \$800 of qualified expenditures late in the FY:</i>		
Grants receivable	\$800	
Grant revenue		\$800
<i>If not expected to be collected before end of availability period after fiscal year-end:</i>		
Grant revenue	\$800	
Deferred inflow of resources - unavailable		\$800



Application to Miscellaneous Revenues

- Option to recognize on a cash basis, however government must look at each category individually
 - Presumption = Difference would be immaterial
- Examples
 - Golf fees
 - Swimming fees
 - Inspection charges
 - Parking fees; parking meter receipts

Receipt of miscellaneous revenue:

	<u>DR</u>	<u>CR</u>
Cash	\$1,000	
Revenue		\$1,000

Property Taxes



- Imposed nonexchange revenue
- Recognize receivable at the earlier of:
 - Legal claim (lien date/assessment date), *or*
 - Start of the period for which the taxes are intended to finance
- Recognize revenue when:
 - Available, *and*
 - Start of the period for which the taxes are intended to finance

Example 1



Village levies property taxes in November 2019 to finance the fiscal year
May 1, 2020 – April 30, 2021

	<u>DR</u>	<u>CR</u>
<i>Lien date:</i>		
Property taxes receivable	\$100,000	
Allowance for doubtful accounts		\$ 5,000
Deferred inflow of resources – subsequent period		95,000
<i>Start of the fiscal year to which the levy applies:</i>		
Deferred inflow of resources - sub period	\$ 95,000	
Revenue – property taxes		\$95,000

Example 1 (cont.)



	<u>DR</u>	<u>CR</u>
<i>As payments are received:</i>		
Cash	\$91,000	
Property taxes receivable		\$91,000
<i>If not expected to be collected within availability period:</i>		
Revenue	\$ 4,000	
Deferred inflow of resources - unavailable		\$ 4,000

Example 2



City's fiscal year is Jan. 1, 2020 – Dec. 31, 2020. City levies property taxes on Jan. 1 for the current fiscal year.

	<u>DR</u>	<u>CR</u>
<i>Jan. 1:</i>		
Property taxes receivable	\$100,000	
Allowance for doubtful accounts		\$ 5,000
Revenue		95,000
<i>As payments are received:</i>		
Cash	\$91,000	
Property taxes receivable		\$91,000
<i>End of availability period at fiscal year-end (if all has not been collected):</i>		
Revenue	\$ 4,000	
Deferred inflow of resources - unavailable		\$ 4,000

Fines and Forfeitures



- Imposed nonexchange revenue
- Receivable = Enforceable legal claim
 - Going to court
 - When fine is imposed by court
 - Not going to court
 - When payment is made, or when period for challenging the citation ends
- Revenue = When available
- Report net of estimated refunds or uncollectible amounts

Sales Taxes



- Derived tax revenue
- Receivable = When underlying transaction occurs
 - Include anticipated recoveries from future tax audits
- Revenue = When available
- Shared taxes
 - Provider government = Tax
 - Recipient government = *Not* a tax
 - Government-mandated or voluntary nonexchange transaction

Sales Tax Example



City levies a 1% sales tax that is collected by merchants and forwarded to the state. The state distributes the taxes to the City two months after the original transaction takes place. The City received \$50,000 in payments from the state during the fiscal year, which includes \$2,000 from sales of the prior year which were accrued by the government as revenue at that time.

	<u>DR</u>	<u>CR</u>
<i>Collection of prior year's receipts:</i>		
Cash	\$ 2,000	
Sales tax receivable		\$ 2,000
<i>Receipt of current year's sales taxes:</i>		
Cash	\$48,000	
Sales tax revenue		\$48,000

Income Taxes



- Derived tax revenue
- Receivable = When income earned
 - Include anticipated recoveries from future tax audits
- Revenue = When available

Pass-Through Grants



- From the vantage point of the intermediate provider
 - Functional equivalent of an expenditure-driven grant
 - Remittance to the ultimate recipients is considered the qualifying expenditure
 - Recognize the revenue as the grant resources are remitted to ultimate recipients

Pass-Through Grant Example



The County receives \$100,000 in grant monies from the state to pass through to a City.
The County's journal entries would be:

	<u>DR</u>	<u>CR</u>
<i>When the grant monies are initially received from the state:</i>		
Cash	\$100,000	
Grant liability		\$100,000

<i>When the City has met all the eligibility requirements for the grant disbursement:</i>		
Grant liability	\$100,000	
Grant expenditure	100,000	
Cash (or payable)		\$100,000
Grant revenue		100,000

On-Behalf Payments of Salaries and Benefits



- Payments made by others to a third party (such as a pension plan) on behalf of their employees
- Employer recognizes revenue equal to amounts received or receivable by third party as of fiscal year-end
 - If employer is *not* legally responsible for payment, it recognizes an expenditure equal to amount of recognized revenue.
 - If employer is legally responsible for payment, recognize expenditure in accordance with accounting standards for that transaction.



- Donated capital assets to be used in operations
 - Not a financial resource – Do not recognize in governmental funds
- Investment income
 - Increase in fair value of investments = Revenue
 - Earned interest and dividends = Revenue when available
- Special Assessments
 - *Normally* exchange or exchange-like transactions
 - Receivable = When enforceable legal claim
 - Revenue = When available

Unusual or Infrequent Items



Unusual in nature – an event or transaction is abnormal and significantly different from the ordinary and typical activities of the government

- Specific to the government entity, not the government industry

Infrequent occurrence – an event or transaction is of a type not reasonably expected to recur in the foreseeable future

- Consider the chances of reoccurrence



Categorizing Transactions & Events

Exercise

Categorizing Transactions and Events – Answer Key

1. A municipal police department charges a fine of \$25 for each parking violation that occurs within the Village.
2. A state department of transportation levies a charge of 4 cents on each gallon of fuel purchased within that state.
3. The government receives interest on its deposits at the local bank.
4. An airport commission collects a facility charge fee on each passenger to generate revenue for the airport's capital projects.

Categorizing Transactions and Events – Answer Key

5. A small city pays a regional transit authority \$200,000 annually to provide transportation services for its elderly and handicapped citizens at a reduced rate.
6. A county passes a law requiring all government buildings within its jurisdiction to install solar panels to save energy. The county provides a one-time contribution of \$500 for each solar panel installed on a government building
7. A park district received a donation to establish an endowment fund to pay for improvements to three playgrounds.
8. A car dealership charges its customers a value-added tax (VAT) tax on the sale of each motor vehicle, which it then remits to the state.

Categorizing Transactions and Events – Answer Key

9. A water utility charges its customers \$8 for each 1,000 gallons of water used.
10. Every Thursday throughout baseball season, a concession stand at the baseball stadium charges its customers only 25 cents for each hotdog purchased at the ballpark as a way to encourage families to attend baseball games.
11. A state imposes a 3% income tax on its residents, of which 1% is shared with all the counties within the state. How would you classify the transactions from the state's perspective?
12. Given the same scenario as in question #11, how would you classify the transactions from the counties' perspective?
13. A waste disposal service charges \$30 per month to each property owner for waste disposal services.

Categorizing Transactions and Events – Answer Key

- 14. The state requires a local school district to provide a daily breakfast to each of its qualifying students. The state will pay for 75% of the cost of providing the breakfasts
- 15. A county transit authority levies a 1% tax on the sale of all liquor sold within the county.
- 16. The Department of Motor Vehicles charges a \$50 fee to renew each person's motor vehicle license.

Categorizing Transactions and Events – Answer Key

17. A local library district charges a fine of 25 cents per day for each overdue library book or DVD.
18. A city sells one of its used vehicles, with a fair value of \$4,000, to a neighboring town for \$500. As a part of this sale, the town has agreed to make repairs to a portion of a road that resides within the city's jurisdiction.
19. A village charges a special assessment of \$5,000 on each property within a specific area, in order to fund road improvements within that area. Resulting from the road improvements, the value of each property within the area is expected to increase by approximately the same amount.

Categorizing Transactions and Events – Answer Key

- 20. A park district receives a state grant to cover 100% of the cost to install a skateboard park.
- 21. A county requires all municipalities within its jurisdiction to provide water services to low-income families at 50% of the normal water rate, and the county will provide partial funding.

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Governmental Fund Expenditures

Basic Rule



- *Modified* accrual basis
- Criteria for expenditure recognition
 - When liability incurred – Same as for the accrual basis
 - Examples: Salaries and vendor payables
- Exceptions – Specifically prescribed by GASB
 1. Debt service
 2. Certain specified accrued liabilities
 3. Postemployment benefits
 4. Prepaid items

1. Exception for Debt Service



- Recognize expenditure when payment is due
 - The period in which payment is normally budgeted
 - No accrual of interest at fiscal year-end
- Early recognition option
 - Purpose = To avoid transitory surplus in debt service fund
 - Three criteria for use
 1. *Must use* a debt service fund
 2. Transfer *must be required* prior to end of fiscal year
 3. Payment *must be due* early in subsequent year (within one month)

Example: Debt Service Expenditure Recognition



- Assumptions for the government
 - June 30 fiscal year-end
 - *Requirement* to transfer \$650,000 to debt service fund by end of fiscal year
 - Debt service payment is due July 1

Example: Debt Service Expenditure Recognition (cont.)



- Transfer to debt service fund will always be the same
 - On date of transfer (June 30):

General fund:

Transfer out

Cash

(Transfer of resources to debt service fund for
July 1 debt service payment)

<u>DR</u>	<u>CR</u>
\$650,000	
	\$650,000

Debt service fund:

Cash

Transfer in

(Transfer of resources from general fund for
July 1 debt service payment)

<u>DR</u>	<u>CR</u>
\$650,000	
	\$650,000

Example: Debt Service Expenditure Recognition (cont.)



- Subsequent journal entries under the normal approach
 - Single journal entry on the payment date

Debt service fund:

Expenditures – debt service – principal

Expenditures – debt service – interest

Cash

(Recognition of July 1 debt service principal and interest payment)

<u>DR</u>	<u>CR</u>
\$600,000	
50,000	
	\$650,000

Example: Debt Service Expenditure Recognition (cont.)



- Subsequent journal entries under the early recognition option
 - Additional journal entry at year-end

	<u>DR</u>	<u>CR</u>
<i>Debt service fund:</i>		
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

	<u>DR</u>	<u>CR</u>
<i>Debt service fund:</i>		
Bonds payable	\$600,000	
Interest payable	50,000	
Cash		\$650,000
(Recognition of July 1 debt service principal and interest payment)		

Example: Debt Service Expenditure Recognition (cont.)



- Net effect on fund balance at June 30 fiscal year-end

- Normal approach

▸ Transfer in	<u>+ \$650,000</u>
▸ Net effect on fund balance	+ \$650,000

- Early recognition option

▸ Transfer in	+\$650,000
▸ Debt service expenditure	<u>- \$650,000</u>
▸ Net effect on fund balance	\$ 0

2. Exception for Certain Specified Accrued Liabilities



- Recognize expenditure when liability is normally liquidated with current financial resources
 - The period in which payment is normally budgeted
- Practical application
 - Recognize when due and payable to former employees – compensated absences
 - Recognize when due and payable
 - Claims and judgments
 - Termination benefits
 - Recognize when goods and services are received
 - Landfill closure and postclosure care costs
 - Pollution remediation obligations
 - Asset retirement obligations

3. Exception for Postemployment Benefits

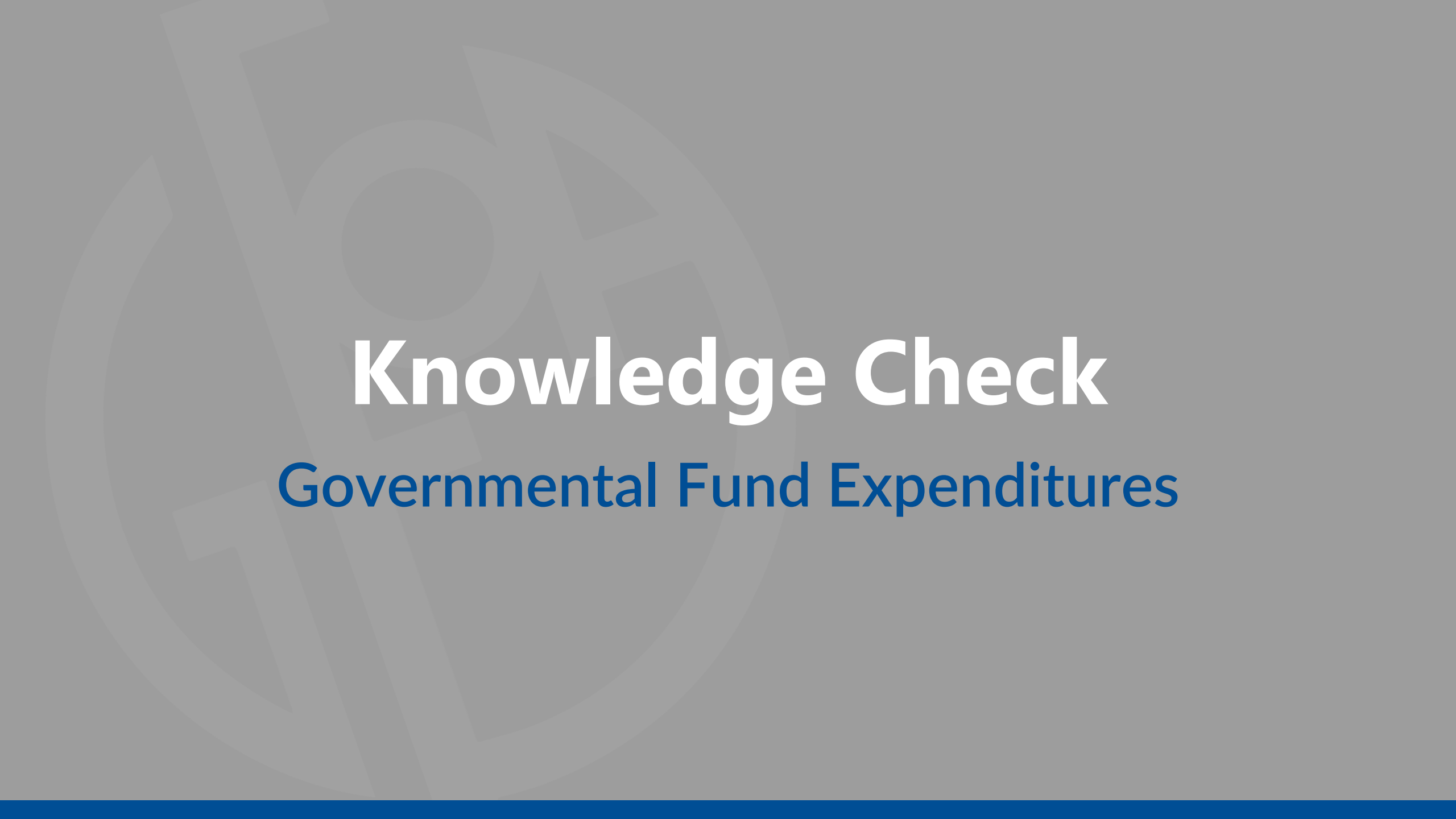


- Pensions and other postemployment benefits (OPEB)
 - Employers in single-employer, agent multiple-employer, and cost-sharing multiple-employer defined benefit plans
 - Recognize expenditure for amounts paid into the plan by the employer during the period, and change in amounts due and payable at beginning/end of period



4. Exception for Prepaid Items

- Two options
 - Purchases method
 - Recognize entire amount as expenditure in the period paid
 - Consumption method
 - Initially recognize as prepaid item (asset)
 - Recognize expenditure proportionately over the periods that service is provided



Knowledge Check

Governmental Fund Expenditures

Question 1

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 2

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 3

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 4

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 5

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

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Other Financing Sources & Uses

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* = inflows of resources
 - Expenditures + *other financing uses* = outflows of resources
- Other financing sources and uses
 - Only items specified by GASB qualify

Other Financing Sources



1. Issuance of long-term debt (face amount and premium)
2. Inception of a lease
3. Debt service on demand bonds reported as fund liabilities
4. Sales of capital assets
5. Insurance recoveries
6. Transfers from other funds
7. Proceeds from pledged receivables

1. Issuance of Long-Term Debt at Premium



- Face value of debt and any premium are recorded separately
- Premium
 - Other financing source

	<u>DR</u>	<u>CR</u>
Cash	\$1,020	
Expenditures – bond issuance costs	40	
Other financing source – bond issuance		\$1,000
Other financing source – premium		60

Clarifications on Issuance of Long-Term Debt



- No-commitment special assessment debt
 - Not debt from the perspective of the government
 - Considered “grant” from property owners = Recognize as revenue
- Borrowings within the primary government
 - Report as *fund liability* rather than other financing source

2. Inception of a Lease



- Let's review the basic journal entry when *debt* is used to finance the purchase of a capital asset recorded in a governmental fund

	<u>DR</u>	<u>CR</u>
Cash	\$500	
Other financing source – notes payable		\$500
(To report the issuance of notes to finance the acquisition of a fire truck)		

	<u>DR</u>	<u>CR</u>
Expenditures – capital outlay – fire protection	\$500	
Cash		\$500
(To report the purchase of a fire truck)		

2. Inception of a Lease (cont.)



- Review
 - Net result when debt is used to finance the purchase of a capital asset
 - 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)



2. Inception of a Lease (cont.)

- Let's look at the inflows and outflows for leases that are recorded in a governmental fund
 - 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 for Leases



- Surrogate for inflow from borrowing and outflow for capital outlay

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

Net Result for Leases



- One inflow/two outflows
 - Similar to when *debt* is used to finance the purchase of a capital asset

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

3. Debt Service on Demand Bonds Reported as Fund Liabilities



- Bonds that contain a *put* option
 - Bondholders may demand repayment in advance
 - Report as fund liability in governmental funds unless meet certain criteria

	DR	CR
Demand bonds	\$50	
Cash		\$50

(To report payment of principal of demand bonds)

- Repayment of principal in governmental fund normally reported as expenditure

3. Debt Service on Demand Bonds Reported as Fund Liabilities (cont.)



- Additional JE needed to report the expenditure in the governmental fund

	<u>DR</u>	<u>CR</u>
Expenditure-debt service-demand bonds	\$50	
Other financing source-demand bonds		\$50
(To report payment of principal on demand bonds)		

4. Sale of Capital Assets



- Conceptually an *other financing source*
- Practical exceptions
 - Insignificant (immaterial) amounts may be reported as *other revenue*
 - May qualify as a unusual or infrequent item

5. Insurance Recoveries



- Involuntary conversion of a nonfinancial asset into a financial asset (forced sale)
 - Report as other financing source, if significant
 - If do not qualify as an extraordinary item
- Does *not* apply to FEMA payments
 - *Not* considered to be insurance recoveries
 - Rather, a form of assistance = Recognize as revenue

6. Transfers In



- Transfers *in* from other funds
 - Always reported as an *other financing source*
 - Includes certain interfund “loans” in which repayment is not expected within a reasonable time

7. Proceeds from Pledged Receivables



- Sometimes governments pledge receivables to get immediate access to cash
 - Similar to secured loan
 - Governmental funds

	DR	CR
Cash	\$50	
Other financing source-pledged receivables		\$50

- Repayment is reported as an expenditure

Other Financing Uses



1. Original issue discount on debt
2. Payments to current or advance refunding escrow agent
3. Transfers to other funds
4. Reclassification of demand bonds as fund liabilities

1. Issuance of Long-Term Debt at Discount



- Face value of debt and any discounts are recorded separately
- Discounts
 - Underwriter's discount = expenditure
 - Original issue discount = other financing *use*

	<u>DR</u>	<u>CR</u>
Cash	\$900	
Expenditures – bond issuance costs	40	
Other financing use – Original issue discount	60	
Other financing source – bond issuance		\$1,000

2. Payments to Current or Advance Refunding Escrow Agent



- Advance refunding
 - Refunding debt issued prior to the call date or maturity of refunded debt
 - Distinguished from regular debt service
 - Other financing use
 - The portion of proceeds of refunding bonds placed into escrow for future repayment of refunded debt
- Current refunding
 - Either paid off immediately or proceeds placed into a short-term escrow (90 days or less) to pay off the old debt
 - Other financing use

3. Transfers Out



- Transfers *out* to other funds
 - Always reported as an *other financing use*
 - Includes certain interfund “loans” in which repayment is not expected within a reasonable time

4. Reclassification of Demand Bonds as Fund Liabilities



- Bonds originally met criteria to be reported as long-term debt (liability *not* reported in governmental funds)
 - In later period failed to meet criteria
 - Must be reclassified as governmental fund liability

	<u>DR</u>	<u>CR</u>
Other financing use-demand bonds	\$50	
Demand bonds payable		\$50
(To report reclassification of demand bonds as fund liability)		



Knowledge Check

Other Financing Sources & Uses

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

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

- A. Revenue
- B. Other financing source
- C. Unusual item

Question 3

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

The background is a solid light blue color. On the left side, there is a large, faint, semi-transparent graphic. It consists of a circular arrow pointing clockwise, with a large dollar sign (\$) superimposed over it.

Governmental Fund Financial Statements

Governmental Fund 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 only one nonmajor governmental fund, that column should be labeled accordingly
- Audit implications
 - Each major fund constitutes an “opinion unit”
 - Point of reference for materiality in the financial statement audit

Major Funds			Nonmajor Fund	Total
General Fund	Special Revenue Fund 1	Capital Projects Fund	Debt Service Fund	

Identifying Major Funds



- General fund will always be a major fund
- Criteria for other governmental funds
 - Based on quantitative factors
 - Relative size
 - Based on qualitative factors
 - Heightened interest
 - Consistency

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%

Example: Assumptions



- Assets plus deferred outflow of resources
 - Special revenue fund A = \$210
 - Total for all governmental funds = \$500
 - Total for governmental funds plus enterprise funds = \$4,000

Four-Step Process



1. Calculate 10 percent of a given financial statement element for governmental funds in total
 - $\$500 \text{ governmental funds in total} \times 10\% = \50
2. Calculate 5 percent of *that same* financial statement element for governmental funds and enterprise funds in total
 - $\$4,000 \times 5\% = \200

Four-Step Process (cont.)



3. Select the higher amount as the threshold for classification as a major fund
 - $\$200 > \50 = Threshold is \$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 = Therefore, this fund *must* be reported as a major fund

Clarifications



- Governmental funds
 - Exclude:
 - Other financing sources and uses
 - Unusual and infrequent items
- Enterprise funds
 - Exclude:
 - Unusual and infrequent items
 - Include: Nonoperating revenues and expenses (includes transfers under GASB 103)

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 Outflow of Resources



1. Governmental funds:

$$\$22,500 \times 10\% = \$2,250$$

2. Governmental funds +
enterprise funds:

$$\$184,800 \times 5\% = \$9,240$$

3. Threshold:

$$\$9,240 > \$2,250 = \text{Threshold}$$

to be used is \$9,240

	Assets + Deferred outflows
General fund	\$6,900
Governmental fund A	\$5,800
Governmental fund B	\$6,800
Governmental fund C	\$3,000
Total governmental funds	\$22,500
Enterprise fund	\$162,300
Total governmental + enterprise funds	\$184,800

Liabilities + Deferred Inflow of Resources



1. Governmental funds:
 $\$8,100 \times 10\% = \810
2. Governmental funds +
enterprise funds:
 $\$80,200 \times 5\% = \$4,010$
3. Threshold:
 $\$4,010 > \$810 = \text{Threshold}$
to be used is \$4,010

	Liabilities + Deferred inflows
General fund	\$1,900
Governmental fund A	\$4,200
Governmental fund B	\$1,300
Governmental fund C	\$700
Total governmental funds	\$8,100
Enterprise fund	\$72,100
Total governmental + enterprise funds	\$80,200

Revenues



1. Governmental funds:

$$\$46,700 \times 10\% = \$4,670$$

2. Governmental funds +
enterprise funds:

$$\$62,900 \times 5\% = \$3,145$$

3. Threshold:

$$\$4,670 > \$3,145 = \text{Threshold}$$

to be used is \$4,670

	Revenues
General fund	\$37,300
Governmental fund A	\$2,400
Governmental fund B	\$3,200
Governmental fund C	\$3,800
Total governmental funds	\$46,700
Enterprise fund	\$16,200
Total governmental + enterprise funds	\$62,900

Expenditures/Expenses



1. Governmental funds:
 $\$44,200 \times 10\% = \$4,420$
2. Governmental funds +
enterprise funds:
 $\$48,000 \times 5\% = \$2,400$
3. Threshold:
 $\$4,420 > \$2,400 = \text{Threshold}$
to be used is **\$4,420**

	Expenditures/ expenses
General fund	\$31,200
Governmental fund A	\$5,000
Governmental fund B	\$5,900
Governmental fund C	\$2,100
Total governmental fun	\$44,200
Enterprise fund	\$3,800
Total governmental + enterprise funds	\$48,000

Application of the Threshold



	Fund total	Threshold	>Threshold?	Must be a 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 threshold criteria
 - It effectively lowers the thresholds for total assets and for total liabilities

Interfund Receivables and Payable - Example



	<u>Fund A</u>	<u>Fund B</u>	<u>Fund C</u>	<u>Fund D</u>	<u>Total</u>
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

Interfund Receivables and Payables - Gross vs. Net



	<u>Fund A</u>	<u>Fund B</u>	<u>Fund C</u>	<u>Fund D</u>	<u>Total</u>
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
 - Heightened public interest



Balance Sheet

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



NAME OF GOVERNMENT
Governmental Funds
Balance Sheet
June 30, 2027

	General	Community Development Block Grant	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash	\$ 8,181,444	\$ 2,270,694	\$ 1,089,244	\$ 708,788	\$ 2,140,653	\$ 14,390,823
Investments	14,989,065	-	4,980,521	1,000,000	538,805	21,508,391
Receivables (net of allowance for uncollectibles)	6,067,247	-	-	4,304,918	3,968	10,376,133
Intergovernmental receivable	513,579	2,408,817	507,459	-	685,673	4,115,528
Lease receivable	301,773	-	-	-	-	301,773
PPP receivable	2,364,241	-	-	-	-	2,364,241
Due from other funds	435,148	-	335,895	-	-	771,043
Due from component unit	32,615	-	-	-	-	32,615
Inventories	806,623	-	-	-	-	806,623
Prepaid items	48,114	-	-	-	614	48,728
Total assets	<u>\$ 33,739,849</u>	<u>\$ 4,679,511</u>	<u>\$ 6,913,119</u>	<u>\$ 6,013,706</u>	<u>\$ 3,369,713</u>	<u>\$ 54,715,898</u>
LIABILITIES						
Accounts payable	3,670,348	213,708	-	-	492,731	4,376,787
Contracts payable	-	-	1,129,196	-	-	1,129,196
Retainage payable	-	-	1,070,044	-	-	1,070,044
Accrued liabilities	2,504,060	-	-	-	419,984	2,924,044
Deposits payable	-	-	-	-	18,367	18,367
Due to other funds	335,895	15,000	-	-	432,148	783,043
Bond anticipation notes payable	-	-	6,905,200	-	-	6,905,200
Unearned revenue-other	2,089,936	-	-	-	227,585	2,317,521
Total liabilities	<u>8,600,239</u>	<u>228,708</u>	<u>9,104,440</u>	<u>-</u>	<u>1,590,815</u>	<u>19,524,202</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-property taxes	617,497	-	-	26,429	-	643,926
Unavailable revenue-special assessments	-	-	-	4,225,300	-	4,225,300
Unavailable revenue-grants	-	274,244	-	-	-	274,244
Lease related	303,578	-	-	-	-	303,578
PPP related	2,389,671	-	-	-	-	2,389,671
Total deferred inflows of resources	<u>3,310,746</u>	<u>274,244</u>	<u>-</u>	<u>4,251,729</u>	<u>-</u>	<u>7,836,719</u>



NAME OF GOVERNMENT
Governmental Funds
Balance Sheet
June 30, 2027

	General	Community Development Block Grant	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
FUND BALANCES (DEFICITS)						
Nonspendable:						
Endowment	-	-	-	-	10,000	10,000
Inventories	806,623	-	-	-	-	806,623
Prepaid items	48,114	-	-	-	614	48,728
Long-term receivables and interfund loans	2,956,162	-	-	-	-	2,956,162
Restricted:						
Special assessment project	-	-	875,000	-	-	875,000
Public service vehicles	1,500,000	-	-	-	-	1,500,000
Library purposes	-	-	-	-	52,276	52,276
Housing services	-	-	-	-	625,881	625,881
Community redevelopment	-	4,176,559	-	-	937	4,177,496
Capital projects	-	-	-	-	-	-
Law enforcement	-	-	-	-	376,200	376,200
Youth programs	-	-	-	-	1,297	1,297
General obligation debt	-	-	-	257,977	-	257,977
Special assessment debt	-	-	-	1,504,000	-	1,504,000
Committed:						
Special assessment project	-	-	1,200,000	-	-	1,200,000
Revenue stabilization reserve	407,377	-	-	-	-	407,377
Nonrecurring repairs and other parking improvements	-	-	-	-	338,917	338,917
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 (deficits)	13,302,201	-	(4,266,321)	-	-	9,035,880
Total fund balances (deficits)	21,828,864	4,176,559	(2,191,321)	1,761,977	1,778,898	27,354,977
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 33,739,849	\$ 4,679,511	\$ 6,913,119	\$ 6,013,706	\$ 3,369,713	\$ 54,715,898

Fund Balance Equation



$$\left[\begin{array}{l} \text{Fund Assets +} \\ \text{Fund Deferred Outflow} \\ \text{of Resources} \end{array} \right] - \left[\begin{array}{l} \text{Fund Liabilities +} \\ \text{Fund Deferred Inflow} \\ \text{of Resources} \end{array} \right] = \text{Total Fund Balance}$$

Categories of Fund Balance



- Term unique to governmental funds
- Basis for categorization
 - Constraints on how *existing* resources of the fund can be spent
 - The sources of those constraints (Inherent, legal, external, internal)
 - From most constrained to least constrained
 1. Nonspendable
 2. Restricted
 3. Committed
 4. Assigned
 5. Unassigned
- Minimum level of disclosure as to the *purposes* for which funds are constrained is at the function level; detail on balance sheet or in notes to the financial statements

Classifications for Display of Fund Balance



A. Minimum level – aggregated totals	B. Minimum level – major category totals
Fund balance	Fund balance
Nonspendable	Nonspendable: Prepays and inventory Endowment Long-term accounts receivable
Restricted	Restricted: General government Public safety Highways and streets Sanitation Etc.
Committed	Committed: General government Public safety Culture and recreation
Assigned	Assigned: General government Public safety Economic development
Unassigned	Unassigned
If the government uses option A, the information in option B must be disclosed in the notes to the financial statements. The categories included in column B are examples and not an all-inclusive list.	



1. Nonspendable Fund Balance

- Not in spendable form
 - Permanently: Inventories and prepaids
 - Temporarily: Receivables
- Not spendable because of legal requirement to maintain intact
 - Endowment principal
 - Principal of a revolving loan fund
- Must display or disclose amounts of each component separately



2. Restricted Fund Balance

- Externally enforceable limitations as to purposes for which net resources may be used
- Sources (same as for *restricted net position*)
 - Creditors
 - Grantors
 - Contributors
 - Laws and regulations of other governments
 - Constitutional provisions
 - Enabling legislation

2. Restricted Fund Balance - Clarifications



- May include resources related to stabilization arrangements (rainy day fund or contingency fund)
 - If limitation on use is externally enforceable, *and*
 - Circumstances that trigger spending are both *specific and nonroutine*
- Not affected by fund balance policy
 - 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 to place constraint (e.g., dedicated revenues)
 - Remains in force unless formally rescinded by same action
 - Must be in place by the end of the reporting period, even if precise amount is not known at that time
 - Formula for calculation is sufficient

3. Committed Fund Balance - Clarifications



- Unaffected by operating budget
 - Passage of annual operating budget is not sufficient to commit fund balance as budgetary limitations naturally lapse over time
 - Includes resources that must be used to liquidate encumbrances related to purchase orders payable from committed resources
 - Do not report separately as “encumbrances” under committed fund balance
- May include resources related to stabilization arrangements
 - If internal constraints meet criteria to be committed, *and*
 - Circumstances that trigger spending are both *specific and nonroutine*



4. Assigned Fund Balance

- Set aside or “earmarking” of resources for certain purpose
- Contrast with committed fund balance
 - Level at which limitation imposed
 - Highest level of decision-making authority (committed)
 - Power may be delegated to a group or individual, such as chief financial officer (assigned)
 - Type of action
 - Formal (committed)
 - Less formal (assigned)
 - Timing
 - No later than the end of the reporting period (committed)
 - Later date (assigned)



4. Assigned Fund Balance - Clarifications

- Must reflect any encumbrances that are not reflected in restricted or committed fund balance
- May never be used in connection with stabilization arrangements
- Includes fund balance that has been appropriated for subsequent year's budget
 - Authorization to use existing fund balance to “balance” a projected operating deficit
 - Amount assigned for this purpose cannot exceed projected operating deficit

4. Assigned Fund Balance – Clarifications (cont.)



- Amount cannot exceed the difference between total fund balance and the sum of its nonspendable, restricted, and committed components

- **Example**

Total fund balance	\$100
Less: nonspendable fund balance	(5)
Less: restricted fund balance	(20)
Less: committed fund balance	<u>(15)</u>
Maximum assigned fund balance	<u><u>\$ 60</u></u>

5. Unassigned Fund Balance



- Residual resources
- Positive balance *only* in the general fund
 - Resources should not be reported in another fund if they are not, at a minimum, assigned for the purpose of that fund
- Deficit in any governmental fund = *unassigned fund balance*

Flow Assumptions



If there are both restricted and unrestricted resources that can be used for a specific purpose, which is used first?

- Needed for calculation of the various components
 - Use of restricted resources vs. unrestricted resources (committed and assigned)
 - Use of committed resources vs. assigned resources
- Should have a formal policy
 - If no formal policy, assumed policy
 - First use committed resources
 - Then use assigned resources
 - Only then use unassigned resources

Total and Elimination Columns



- Must report a total column for governmental funds
- The presentation of comparative data is optional
- Interfund balances between governmental funds may not be reported in the governmental activities column of the government-wide statements
 - Two options
 1. Use a separate eliminations column
 2. Keep interfund balances in fund financial statements and then simply drop them from government-wide financial statements

Use of Eliminations Column Option



	General Fund	Fund A	Fund B	Nonmajor Funds	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.”

NAME OF GOVERNMENT
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2027



Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds	\$	27,354,977
--	----	------------

Capital assets of \$514,663,041, net of accumulated depreciation of \$229,649,637, used in governmental activities are not financial resources and, therefore, are not reported in the funds.		285,013,404
---	--	-------------

Differences between expected and actual experiences, assumption changes and net differences between projected and actual earnings and contributions subsequent to the measurement date for the postretirement benefits (pension and OPEB) are recognized as deferred outflows of resources and deferred inflows of resources on the statement of net position.

Deferred outflows - pension related	8,086,493	
Deferred outflows - OPEB related	1,997,805	
Deferred inflows - pension related	(1,744,054)	
Deferred inflows - OPEB related	(7,278,225)	
Total deferred outflows and inflows related to postemployment benefits		1,062,019

Some receivables will not be available to pay for current-period expenditures and are offset by unavailable revenues in the governmental funds and thus are not included in fund balance. Certain tax and other revenues that are considered unavailable for governmental funds but are recognized as revenue for the government-wide statements.		5,190,755
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Improvements to underlying assets made by the operator in a PPP arrangement are recognized as capital assets when placed into service and recognized as revenue over the remaining life of the PPP arrangement by the transferor. The unamortized deferred inflow of resources is not a current financial resource and, therefore, is not reported in the funds.		(540,202)
--	--	-----------

Internal service funds are used by management to charge the cost of fleet management and risk management to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.		3,493,767
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NAME OF GOVERNMENT
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2027

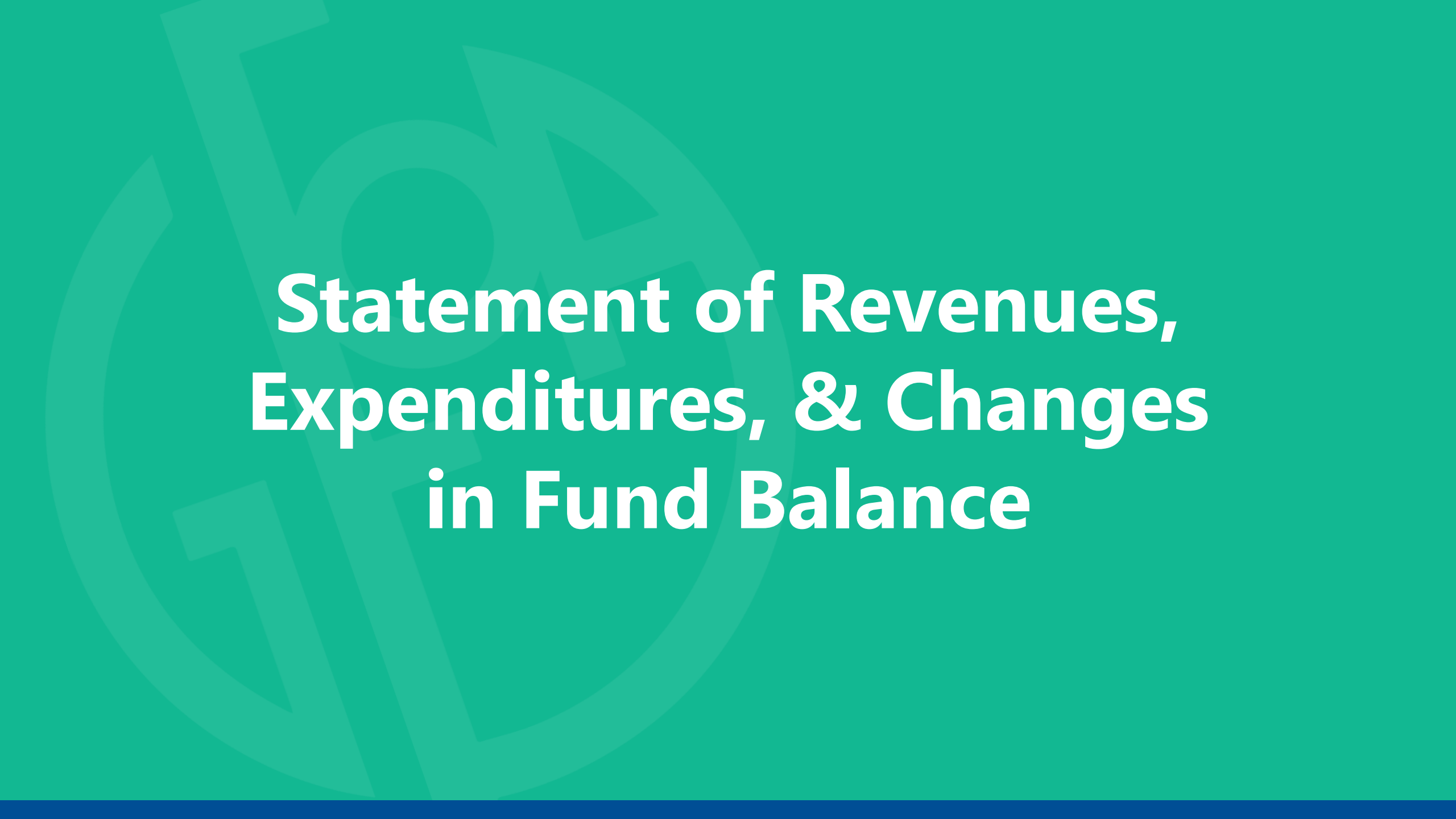
Long-term liabilities that are not due and payable in the current period, and therefore, are not reported in the funds.

General obligation bonds payable	(72,352,863)	
Notes payable	(2,000,000)	
Special assessment bonds payable	(4,700,000)	
Compensated absences	(5,855,137)	
Pension related debt	(4,739,557)	
Leases payable	(49,587)	
Subscription payable	(42,105)	
Accrued interest payable on long-term debt	(716,657)	
Net OPEB liability	(38,264,824)	
Net pension liability	(48,118,265)	
Total long-term liabilities		(176,838,995)

Governmental funds report the effect of premiums, discounts, and refundings and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Deferred amount on refunding	726,762	
Premium on general obligation bonds	(670,015)	
Discount on special assessment bonds	9,319	
Total premiums, discounts and deferred items		66,066

Net position of governmental activities	\$ 144,801,791
---	----------------



Statement of Revenues, Expenditures, & Changes in Fund Balance

Presentation



Revenues

- Expenditures

= Excess (deficiency) of revenues over expenditures

+/- Other financing sources and uses (including transfers)

+/- Unusual and infrequent items

= Net change in fund balance

+ Fund balance at beginning of year

= Fund balance at end of year

NAME OF GOVERNMENT
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2027



	General	Community Development Block Grant	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 31,331,171	\$ -	\$ -	\$ 7,935,396	\$ 5,539,162	\$ 44,805,729
Sales taxes	44,368,865	-	-	-	-	44,368,865
Franchise taxes	1,537,833	-	-	-	-	1,537,833
Licenses and permits	2,649,889	-	-	-	-	2,649,889
Intergovernmental	9,705,931	2,326,726	874,480	-	6,135,542	19,042,679
Charges for services	19,207,530	-	-	-	-	19,207,530
Fines and forfeitures	6,670,562	-	-	-	-	6,670,562
Investment earnings	3,352,747	8,795	201,620	241,967	29,886	3,835,015
Fees	-	50,534	-	-	4,441,023	4,491,557
Special assessments	-	-	-	470,000	-	470,000
Payments in lieu of taxes	2,345,545	-	-	-	-	2,345,545
Miscellaneous	2,299,217	-	-	-	297,150	2,596,367
Total revenues	123,469,290	2,386,055	1,076,100	8,647,363	16,442,763	152,021,571
EXPENDITURES						
Current:						
General government	29,778,662	-	-	-	-	29,778,662
Public Safety	56,455,090	-	-	-	390,828	56,845,918
Highways and streets	23,233,034	-	-	-	4,238,979	27,472,013
Sanitation	8,140,187	-	-	-	-	8,140,187
Culture and recreation	9,646,488	-	-	-	7,073,916	16,720,404
Community development	-	2,652,346	-	-	4,665,591	7,317,937
Debt service:						
Principal	-	-	-	5,357,958	-	5,357,958
Interest	-	-	-	3,250,148	-	3,250,148
Issuance costs	15,254	-	150,541	122,710	-	288,505
Capital outlay:						
General government	-	-	462,180	-	-	462,180
Public Safety	-	-	1,465,901	-	-	1,465,901
Highways and streets	-	-	9,574,399	-	-	9,574,399
Sanitation	-	-	1,696,099	-	-	1,696,099
Culture and recreation	-	-	1,443,330	-	-	1,443,330
Total expenditures	127,268,715	2,652,346	14,792,450	8,730,816	16,369,314	169,813,641
Excess (deficiency) of revenues over expenditures	(3,799,425)	(266,291)	(13,716,350)	(83,453)	73,449	(17,792,070)



NAME OF GOVERNMENT
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2027

	General	Community Development Block Grant	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)						
Transfers in	20,944	-	1,982,520	1,226,340	252,695	3,482,499
Transfers out	(5,090,719)	-	(1,214,133)	(621,625)	(284,231)	(7,210,708)
Notes issued	2,000,000	-	-	-	-	2,000,000
Refunding bonds issued	-	-	-	5,810,000	-	5,810,000
Premium on refunding bonds issued	-	-	-	249,914	-	249,914
Special assessment bonds issued	-	-	4,700,000	-	-	4,700,000
Discount on special assessment bonds issued	-	-	(10,354)	-	-	(10,354)
Payment to refunded bond escrow agent	-	-	-	(5,937,204)	-	(5,937,204)
Leases issued (as lessee)	57,517	-	-	-	-	57,517
SBITA	42,105	-	-	-	-	42,105
Sale of general capital assets	31,450	-	-	-	-	31,450
Insurance recoveries	194,082	-	-	-	-	194,082
Total other financing sources (uses)	(2,744,621)	-	5,458,033	727,425	(31,536)	3,409,301
Net change in fund balances	(6,544,046)	(266,291)	(8,258,317)	643,972	41,913	(14,382,769)
Fund balances - beginning of year, as previously presented	28,372,910	-	6,066,996	1,118,005	6,179,835	41,737,746
Adjustments	-	4,442,850	-	-	(4,442,850)	-
Fund balances - beginning of year, as adjusted	28,372,910	4,442,850	6,066,996	1,118,005	1,736,985	41,737,746
Fund balances (deficit) - end of year	\$ 21,828,864	\$ 4,176,559	\$ (2,191,321)	\$ 1,761,977	\$ 1,778,898	\$ 27,354,977

Revenues



- Present by major source
 - Taxes
 - Licenses and permits
 - Intergovernmental revenues
 - Charges for services
 - Fines and forfeitures
 - Miscellaneous
 - Investment income (even if negative)

Expenditures



- Present by character
 - Current Expenditures
 - Presented by program or function (at minimum)
 - Function - Related activities aimed at accomplishing a major service or regulatory responsibility
 - Program - Activities, operations, or organizational units directed to the attainment of specific purposes or objectives
 - Debt Service
 - Capital Outlay
 - Intergovernmental

Function and Program - Examples



- Functions
 - General government
 - Public safety
 - Highways and streets
 - Health and welfare
 - Sanitation
 - Culture and recreation
 - Conservation
- Programs within a function - public safety
 - Police
 - Fire
 - Corrections
 - Protective inspection

Capital Outlay Character



- Amount reported often include noncapitalized, project-related costs (items below capitalization threshold; e.g., furnishings)
- Routine capital expenditures in the general fund normally are included in the appropriate functional category within the current character
 - Example – Purchase of new police vehicle included as expenditures – public safety

Grants to Other Governments



- Ideal character classification
 - Intergovernmental expenditures
- Practice
 - Commonly included in corresponding functional category within current expenditures
 - Example – Prenatal care grant expenditures classified as expenditures – health and welfare

Total and Elimination Columns



- Must report a total column for governmental funds
- The presentation of comparative data is optional
- Interfund transfers between governmental funds may not be reported in the governmental activities column of the government-wide statements
 - Two options
 1. Use a separate eliminations column
 2. Keep interfund transfers in fund financial statements and then simply drop them 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.”



NAME OF GOVERNMENT
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2027

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (14,382,769)
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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/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization expense in the current period.

Depreciation/amortization expense	(11,967,131)	
Capital outlays	15,132,383	
		3,165,252

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Earned but unavailable property taxes and special assessment revenues	4,479,676	
Earned but unavailable grants	274,244	
PPP revenue	11,025	
Interest	(1,030)	
		4,763,915

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.

Donation of capital assets	128,756	
Sale of capital assets	(9,174)	
		119,582

NAME OF GOVERNMENT
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2027



Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Issuance of special assessment debt	(4,700,000)	
Issuance of refunding bonds	(5,810,000)	
Payment to escrow agent	5,937,204	
Note issued	(2,000,000)	
Lease issued	(57,517)	
SBITA issued	(42,105)	
Premium	(249,914)	
Discounts	10,354	
Principal paid on pension related debt	697,896	
Principal paid on bonds, leases, and SBITAs	<u>5,357,958</u>	(856,124)

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.

(251,931)

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.

Accrued interest on long-term debt	13,816	
Amortization of bond premiums and discounts and deferred amounts of refunding	82,191	
Amortization of deferred amounts of refunding	(91,970)	
Compensated absences	(380,337)	
Changes in pension liabilities and related deferred outflows and inflows of resources	(1,950,196)	
Changes in OPEB liabilities and related deferred outflows and inflows of resources	<u>(2,748,230)</u>	(5,074,726)

Change in net position of governmental activities

\$ (12,516,801)

Question 1 (Assumptions)

Which of the following funds would *always* need to be classified as a major fund?

	Assets + Deferred Outflows	Liabilities + Deferred Inflows	Revenues	Expenditures/ Expenses
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 1

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 1 (Answer)

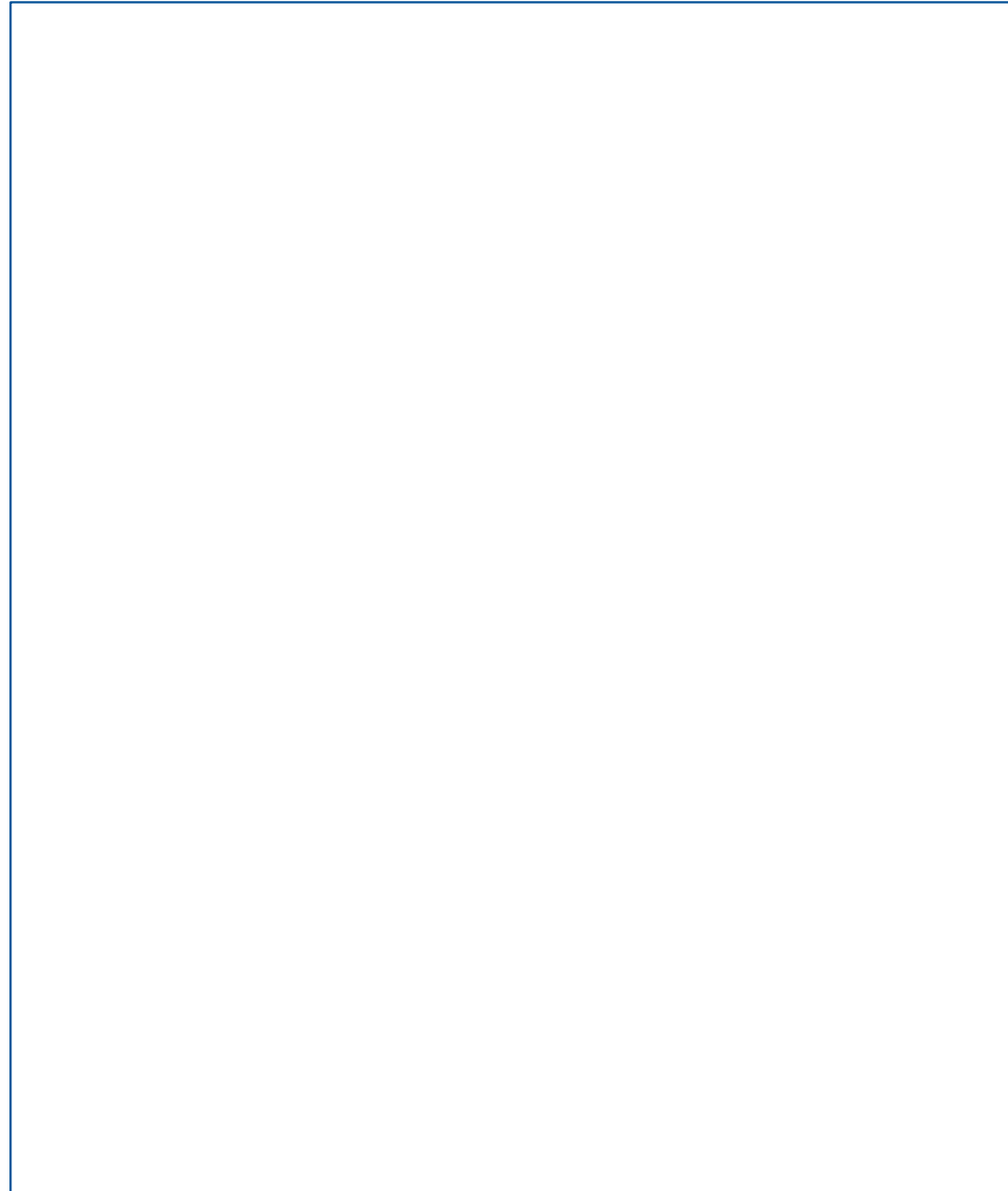
The general fund and governmental fund A are major funds

	Assets + Deferred Outflows	Liabilities + Deferred Inflows	Revenues	Expenditures/ Expenses
Total governmental funds	$\$810 \times 10\% = \81	$\$115 \times 10\% = \12	$\$2,180 \times 10\% = \218	$\$2,095 \times 10\% = \210
Total governmental + enterprise	$\$1,260 \times 5\% = \63	$\$335 \times 5\% = \17	$\$2,865 \times 5\% = \143	$\$2,640 \times 5\% = \132
Threshold	\$81	\$17	\$218	\$210
General fund	Always Major			
Governmental fund A	\$200	\$25	\$800	\$780
Governmental fund B	\$60	\$10	\$150	\$115
Governmental fund C	\$50	\$10	\$80	\$75

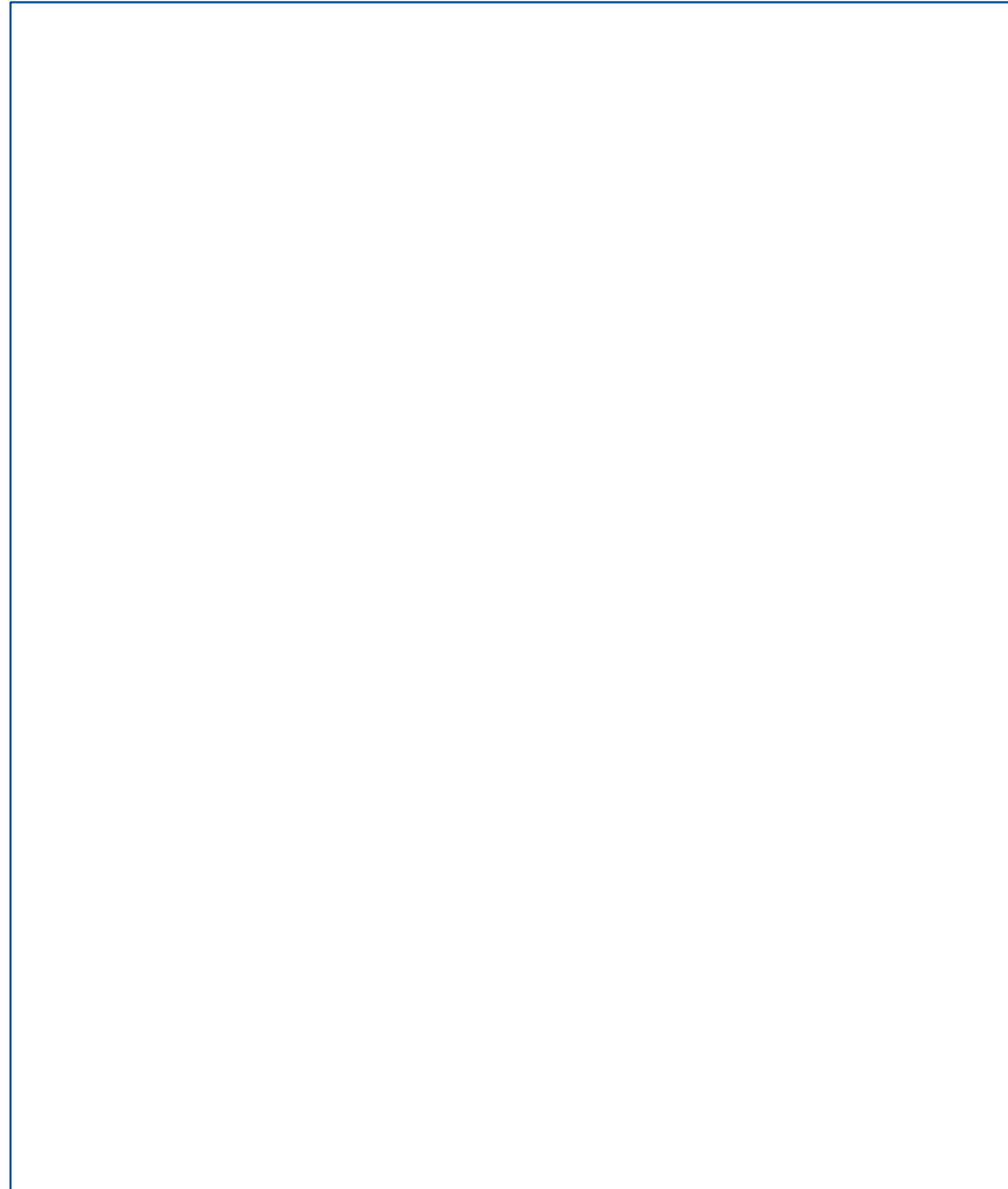
Governmental Fund Financial Statements

Exercise

Answer Key



Answer Key





Proprietary Funds

Proprietary Funds



- Operate in many ways like private-sector business
- Economic resources measurement focus – accrual accounting

Enterprise Funds	Internal Service Funds
Fees charged to external customers	Fees charged to internal customers
May be subsidized in some manner	Must break even over time
Utilities, mass transit, public hospitals	Information systems, motor pools, garages



Enterprise 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

Overview



- Differences from private sector
- Situations unique to public sector

Interest Capitalization



- Private sector
 - Calculate interest as part of the cost of the capital asset
- Public sector
 - Interest expense associated with capital construction *no longer capitalized* as part of the capital asset (except for regulated industries)

Capital Asset Impairments



- Private sector
 - Recognize impairment if carrying value exceeds undiscounted future cash flows
- Public sector
 - Recognize impairment if significant and permanent, 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 = *amortize* over shorter of the life of the old or the new debt, as *adjustment to interest expense*

Compensated Absences



- Private Sector
 - Vacation must be accrued as earned, no guidance on valuation
 - Accrual of sick leave *permitted* (defined narrowly as time taken off for illness and not otherwise reimbursable)
- Public sector Accrue liability for leave that:
 - Is attributable to services already rendered and
 - Accumulates, and
 - Is *more likely than not* to be either paid or settled through other means

Compensated Absences (cont.)



- Compensated absences
 - Includes leave for which employees may receive:
 - Cash payments when leave is used for time off (pay in period)
 - Other cash payments, such as payment for unused leave at end of employment
 - Noncash settlements, such as conversion to defined benefit (DB) pension and other postemployment benefits (OPEB, and, together with pension, collectively PEB)
 - Certain salary-related payments
 - NOTE: Payment or settlement can occur during, or upon termination of, employment

Compensated Absences (cont.)



- Examples of leave (recognition rules differ)
 - Vacation (annual) leave
 - Sick leave
 - Paid time off (PTO)
 - Holidays
 - Parental leave
 - Bereavement leave
 - Military leave
 - Jury duty
 - Unrestricted sabbatical leave



Compensated Absences (cont.)



Exceptions From General Rule, By Leave Type	Recognize Liability for Leave & Associated Salary-Related Payments
Leave dependent upon the occurrence of a sporadic event that affects a small proportion of employees in a particular reporting period (e.g., military leave, parental leave, jury duty) • EXCLUDING sick leave, unrestricted sabbatical leave	When leave commences
Unlimited leave and holiday leave taken on a specific date	When leave is taken
Leave more likely than not to be settled through conversion to defined benefit pension or other postemployment benefits	Not recognized

Measurement of Compensated Absences Liabilities



- Unused leave
 - Use employee's pay rate at period end
 - Unless, it's more likely than not that some leave will be paid at a *different rate* - use that rate to measure that portion of the liability at period end
 - Example: A government's policy is that employees are paid only $\frac{1}{2}$ of their pay rate for unused sick leave, so a rate equal to 50% of employee's pay rate at year end is used instead of the full pay rate
 - Changes in future periods due to increases in applicable rates are recognized in the period of the change
- Salary-related payments
 - Applicable rates at period end

Unique Transactions in Proprietary Funds



- Connection fees
- Impact / developer fees
- Specialized accounting
- Regulated Industries

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 (Post GASB 103)
 - Nonoperating Revenue
 - Noncapital subsidy (if not limited to capital)
 - Other nonoperating revenue (capital subsidy) if limited to capital

Unique Transactions (cont.)



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

Rate-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

Rate-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



Knowledge Check

Enterprise Funds

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

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

Internal Service Funds



- Government is predominant participant
 - Used for goods or services provided on a *cost-reimbursement basis* to other departments of the government
 - Customer charges must include a component for capital; can be allocated based on:
 - Depreciation expense
 - Debt service
 - Replacement cost
- General rule: “Break-even” over time

Cost Reimbursement



- Accrued liabilities must be billed in full each year
- 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?



Knowledge Check

Internal Service Funds

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



Review

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

Classification as a major fund (for other than the General 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 4

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 5

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 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

How would a portion of a revenue stream that a city council formally set aside for park improvements most likely be classified in fund balance?

- A. Nonspendable fund balance
- B. Restricted fund balance
- C. Committed fund balance
- D. Assigned fund balance
- E. Unassigned fund balance

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